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**Selective adjustment to EU regulatory
provisions in new member states: the case of
electricity market liberalization in Bulgaria
and Czech Republic**

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Abstract

The present work aspires to provide a comprehensive analysis of the policy developments through which European-level prescriptions regarding the liberalization of national electricity markets have been accommodated within the domestic policy contexts of two new member states of the European Union: Bulgaria and Czech Republic. Despite being subjected to uniform demands, adaptation to community regulatory provisions in the two countries has prompted divergent patterns of policy change, resulting in full compliance in the Czech Republic and a failure to meet EU objectives in Bulgaria. In order to address the observed inconsistency the envisaged research identifies a causal link between the outcomes of regulatory compliance and the influence of utility regulation as a sector-specific EU governance pattern on the dynamics of resource re-distribution at the domestic level. A major concern of the research is how contextual factors, such as incumbent power balances across actor populations in the target policy area condition the impacts of EU inputs on domestic policy decisions. In this respect the work hypothesizes that due to transition “sediments” in the new EU member states external rules may be selectively applied in order to match the existing realities and lead to outcomes that diverge from the initial regulatory intent.

Abstrakt

Tato práce se pokouší nabídnout komplexní analýzu vývoje politiky, jejímž prostřednictvím byly evropské předpisy, týkající se liberalizace národních trhů s elektřinou, přizpůsobeny domácímu politickému kontextu Bulharska a České republiky jako dvou nových členských států Evropské unie. Přesto, že byla vystavena jednotným požadavkům, adaptace na unijní regulační opatření v obou zemích byla odlišná co do vývoje příslušných politik s tím, že zatímco Česká republika byla schopná unijním požadavkům vyhovět, Bulharsko neuspělo. Výzkum, jehož cílem je vysvětlit tento nesoulad, identifikuje příčinnou souvislost mezi výsledky dodržování regulačních opatření a vlivem regulační politiky jako sektorově specifického způsobu uplatnění evropského modelu vládnutí na dynamiku přerozdělování zdrojů na domácí úrovni. Pozornost se soustřeďuje na kontextuální faktory, např. na to, jak rovnováha stávajících mocenských struktur v relevantních populacích daných oblastí podmiňuje dopad evropských rozhodnutí na domácího rozhodování. V tomto ohledu je vyslovena hypotéza, že s ohledem na tranzitivní "sedimenty" v nových členských státech EU mohou být vnější pravidla odchylována selektivním způsobem tak, aby vyhovovala místním poměrům, což vyvolává výsledky neodpovídající původnímu regulačnímu záměru.

Keywords

Europeanization, European governance, liberalization, state capture, electricity market, domestic adaptation, Bulgaria, Czech Republic

Klíčová slova

Evropeizace, Evropská správa, liberalizace, uchvácení státu, trhu s elektřinou, domácí adaptace, Bulharsko, Česká republika

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Declaration of Authorship

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree.

Prague 17.05.2013

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Master thesis proposal

Title: Selective adjustment to EU regulatory provisions in new member states: the case of electricity market liberalization in Bulgaria and Czech Republic

Hypothesis: *The transfer of regulative patterns from advanced policy environments to policy environments, characterized by on-going processes of transformation, may lead to increased risk of malpractices, rather than improved policy performance*

Research questions:

- Did policy transfer during and after the accession process of new EU member states from Central and Eastern Europe result in discrepancy between practice and legislation within their domestic contexts?
- Is it possible that the impact of problematic issues associated with new EU member states, such as lack of accountability of implementation procedures, clientelism and state capture, has been exacerbated, rather than diminished through adaptation to EU regulatory models?

Two implementation steps:

STEP 1: Answering the question *WHY* the Czech Republic implemented full electricity market liberalization before the deadline (end of 2011), opting for the most definitive models of liberalization (full ownership unbundling), provided in the 2009 Electricity Directive, while Bulgaria has still not even started implementing the directive as of March 2013.

STEP 2: Answering the question *HOW* changes brought by the push for liberalization affected the domestic policy environment and whether they contributed to creating open and competitive markets, or on the contrary – widened the existing gaps between paper legislation and practical realization of measures

Theory

Insights from 3 major sources:

- Differentiated empowerment of domestic actors (Héritier and Knill, 2000)
- Actor-centered policy analysis – advocacy coalitions (Sabatier and Jenkins-Smith, 1999), policy networks (Adam and Kriesi, 1999) and punctured equilibrium (Baumgartner and Jones, 1993)
- Regulatory compliance

Approach: including both “top-down” and “bottom-up” Europeanization dimensions

Method:

- An “effects-of-causes” study (Mahoney and Goertz, 2006),
- 4 domestic variables – initial stage of liberalization, reform capacity, power distribution in incumbent actor constellations, policy salience
- *Case-matching strategy:* “most similar systems design”, corresponding to Mill’s method of difference

SOURCES: Official documentation, policy opinions and analyses, statistical sources, media coverage and expert interviews

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List of abbreviations

ATEB	Association of Traders for Electricity in Bulgaria
BEH	Bulgarian Energy Holding
BFIEC	Bulgarian Federation of Industrial Energy Consumers
BSP	Bulgarian Socialist Party
CEPET	Commission on Economic Policy, Energy and Tourism
CITUB	Confederation of Independent Trade Unions in Bulgaria
CSD	Center for the Study of Democracy, Sofia
ČEZ	České Energetické Závody /Czech Energy Plants/
ČSSD	Česká strana sociálně demokratická /Czech Social Democratic Party/
ČMKOS	Českomoravská konfederace odborových svazů / Czech-Moravian Confederation of Trade Unions
DSB	Demokrati za silna Bulgaria /Citizens for strong Bulgaria/
DSO	Distribution System Operator
EMI	Energy Management Institute, Sofia
ERÚ	Energetický regulační úřad /Energy Regulatory Office
ESO	Energy System Operator
EC	European Commission
EU	European Union
GERB	Grajdani za evropeisko razvitie na Bulgaria /Citizens for the European Development of Bulgaria/
IME	Institute of Market Economics, Sofia
ISO	Independent System Operator
ITO	Independent Transmission Operator
KDU-ČSL	Křesťanská a demokratická unie- Československá strana lidová / The Christian and Democratic Union – Czechoslovak People's Party/
KSČM	Komunistická strana Čech a Moravy /The Communist Party of Bohemia and Moravia/
KT Podkrepa	Konfederatzia na truda Podkrepa /Confederation of Labour Podkrepa/
KZK	Komisia za zashtita na konkurentziata /Commission for Protection of Competition/
MRF	Movement for Rights and Freedoms
NDSV	Natzionalno dvijenie Simeon Vtori /National movement Simon the Second/
NEC	National Electricity Company
ODS	Občanská demokratická strana /Civic Democratic Party/
OSI	Open Society Institute, Sofia
RHDS	Rada hospodářské a sociální dohody / Council for Economic and Social Agreement/
SEWRC	State Energy and Water Regulatory Commission
TSO	Transmission System Operator
UDF	Union of Democratic Forces
ÚOHS	Úřad pro ochranu hospodářské soutěže /Office for the Protection of Competition/

Introduction

At its core the present research effort is informed by two key theoretical conceptions drawn from the current Europeanization literature. Early polity-centered Europeanization approaches have concentrated on studying domestic change induced by existing structural “misfits” between supranational arrangements and institutional settings in the member states of the European Union (Cowles et al., 2001, Börzel and Risse, 2003). Those analytical attempts pose a vertical “chain-of-command” logic of interaction where top-down pressures result in increasing cross-national convergence. The “goodness of fit” logic has been questioned by authors, who advance an alternative, “bottom-up” approach to Europeanization (Radaelli, 2002). Bottom-up research designs put the emphasis of national adaptation on the specific attributes of domestic policy contexts. Thus, EU inputs (both pressures and incentives) are accommodated into domestic frameworks, depending on existing administrative traditions and actor preferences, defined at different points in time. The result is divergence, rather than uniformity in policy outcomes.

A third group of scholars have aspired to incorporate the existing Europeanization approaches in holistic research frameworks, accentuating on the central significance of the distinct governance patterns at work in different policy areas (Bulmer and Radaelli, 2004, Bauer et al., 2007). Thus, they distinguish between policy areas, where the EU positively prescribes concrete models and formalized procedures for their implementation, and sectors, where the EU works through negative integration, imposing specific restrictions to the behavior of domestic actors without prescribing particular institutional outcomes.

In the latter case national administrations are provided with considerable institutional discretion for adjustment. Therefore, EU rules create an environment, where “competitive selection” (Olsen, 2002) alters the strategic position of domestic actors, eventually challenging the existing balance of power. Here, the incumbent patterns of resource distribution and different trajectories of institutional building come to the fore as factors conditioning policy choices.

Utility regulation is one such area as within it EU competition-based rules aim at removing competitive distortions, impeding the functioning of the common market, while the concrete mode of implementation is up to the member states. It represents a specific implementation context where external policy goals affect negatively the interests of major domestic policy actors

(former natural monopolies), which at the same time have a major say in negotiating the exact parameters of the reform. Concurrently, the abolishment of distortive practices provides opportunities for new competitors to enter the policy domain.

While studies focusing on this so-called “differential empowerment” of domestic actors have mostly covered older EU member states (Héritier and Knill, 2000, Eising and Jabko, 2001, Lodge, 2002, Thatcher, 2006, Bulmer et al., 2007), there are very few research efforts targeting explicitly domestic compliance to EU regulatory requirements in the new member states in Central and Eastern Europe. At the same time in those countries particular contextual traits, related to the formation of state-corporate relations during post-communist transition, create conditions for extremely disproportionate patterns of domestic resource distribution. Thus, existing path dependencies have produced tight clientelist networks and state capture opportunities, far exceeding the scope of the so-called “iron triangles”, associated with regulatory capture in utilities in Western democracies (Stigler, 1971). It is expected that such advocacy coalitions would attempt to keep the existing competitive distortions, on which they thrive, blocking access to new entrants, or rather adapt the externally imposed rules to existing domestic practices in order to maximize their profits. Therefore, in new member states instead of restricting the dominance of entrenched “policy monopolies” (Baumgartner and Jones, 2002), EU rules might be indeed achieving the reverse effect by introducing new opportunities for extraction. Thus far the potential for selective rule adjustment has not been sufficiently addressed in existing Europeanization literature.

The current diploma thesis intends to address this gap by focusing on the dynamics of domestic regulatory compliance in a specific area of utility regulation (electricity market liberalization) within the policy contexts of two new member states of the European Union: Bulgaria and Czech Republic.

In this regard the work suggests a *hypothesis*, according to which in policy contexts, determined by the persistence of historically-situated exchange relations, such as state capture and clientelism, EU regulations may be intentionally and selectively adapted by domestic actors to existing patterns of behavior and in the process veer away from the set of objectives, laid out in the original rule design. Consequently, by looking at two particular policy environments the research attempts to answer whether rule transposition in new EU member states has resulted in

improved regulatory performance or has widened the discrepancy between legislation and practice. Also, it speculates that adaptation to EU regulatory models may exacerbate, rather than attenuate the impact of existing capture practices in those countries.

The formulated hypothesis will be tested by comparing variation in domestic responses to EU electricity liberalization requirements, taking advantage of an identified divergence in compliance outcomes in Bulgaria and Czech Republic (no compliance vs. full compliance). The target is to reveal which domestic factors account for the results of rule transposition in both countries. Also, a main concern is how and whether identified capture practices affect the patterns of power distribution in domestic actor constellations, and are thus reflected in policy agendas and the resulting compliance choices. The research also strives to explore how the accommodation of EU inputs by domestic actors in those contexts has influenced the existing institutional equilibria: has it led to altering the existing opportunity structures or it has augmented the existing power asymmetries. It, therefore, incorporates both top-down and bottom up Europeanization dimensions, paying specific attention to the evolution of policy decisions over time.

The *first* chapter of the diploma thesis provides a review of the conceptual frameworks, theoretical models and empirical findings relevant to the scope and objectives of the current work. Europeanization as an explanatory framework, dealing with domestic adaptation to EU regulatory provisions, is put under particular scrutiny. A separate angle of the review focuses on early theory of regulatory capture, while the related notions of state capture and clientelism are also briefly examined. Additionally, the review brings in scholarly contributions on policy equilibriums and the balancing mechanisms that trigger policy change. Further discussed are specific contextual features facilitating the formation of entrenched policy subsystems in the area of electricity market liberalization and the domestic policy settings of Central and Eastern European states.

The *second* chapter concentrates on research design. It introduces the conceptual framework standing at the heart of the conducted research. Included are concepts, such as EU inputs, domestic contexts and policy outcomes, as defined within the scope of the current work. The chapter also discerns the key methodological aspects, informing the realization of the envisaged empirical research. Specific attention is given to identifying the domestic factors conditioning the results of regulatory compliance. The motives behind the selection of the individual cases are

provided in a separate subsection. The research design determines two major causal patterns accounting for the dynamics of policy change within the selected policy environments. Finally, the constraints limiting the validity of the research are also exposed.

The selected country cases are subjected to a detailed empirical research in the *third* chapter. The logic of research in each case follows the progression of domestic variables identified in the research design. Thus, separate attention is given to the level of liberalization, the domestic reform potential, the pattern of power distribution, the level of state capture and the salience of electricity market liberalization in the selected policy contexts.

The *concluding* chapter of the thesis includes a summary and discussion of the research findings. The reached conclusions largely correspond to the proposed causal patterns, while the work finds enough evidence in support of the formulated hypothesis.

1. Review of existing literature

A core issue having a bearing on the ideational underpinnings of the current research refers to the relevance of Europeanization as an explanatory approach applicable to studying the influence of European Union (EU) regulatory policies on policy outcomes in the domestic contexts of its member-states. Contemporary debate on the subject confirms that Europeanization has reached a level of conceptual systematization and theoretic precision justifying its utilization as a tool for in-depth analytical attempts. However, putting Europeanization at work demands a number of basic clarifications regarding its scope and content.

An important discussion in Europeanization literature revolves around the extent to which the concept of Europeanization has moved away from “first generation” polity-centered studies, concentrating on supranational institution-building and evolution of distinct European-level structures of governance” (Cowels et al., 2001). Focusing on the redistribution of power between actors and institutions at both European and domestic levels early research in the 70s, 80s and 90s usually identified the potential outcomes as some form of “strengthening, weakening or transformation of the nation-state” (Börzel, 1999, p.574). Proponents of competing regional integration approaches, such as intergovernmentalism (showcased most comprehensively by Moravcsik, 1991, 1993), and neo-functionalism (Sandholtz and Sweet, 1998, 2012), disagree over the degree of manifestation of supranationality in the emerging European community, while new governance paradigms point at possible fundamental transformations subverting the decision-making authority of traditional governing nodes (e.g. multi-level governance, spearheaded by authors, such as Hooghe and Marks, 1996, 2001, Eising and Kohler-Koch, 1999).

The focus of early studies on European integration has been subjected to considerable criticism by a slate of more recent, mostly post-2000 authors (Knill, 2001, Bulmer, 2007). What seriously undermines the explanatory power of classic integration concepts according to Bulmer is their explicit concentration on the dynamics and outcomes of European-level developments, while the underlying processes of institutional change at the domestic level have been addressed only indirectly or often completely disregarded (Bulmer, 2007, p. 49). Moreover, as Knill argues early research efforts have made crucial omissions in terms of providing relevant factors conditioning the course of such processes, including the extent to which supranational integration has led to changes in domestic institutions or the direction of the occurring changes (Knill, 2001, p.12).

As a consequence, several conceptual and theoretical approaches address the identified loopholes by re-orienting Europeanization towards studying the impacts of (already perceived as) distinct European-level governance structures on key domestic political processes and institutional properties (Börzel, 1999, Börzel and Risse, 2003, Cowles et al., 2001). For example, purveyors of classic “top-down” analytical efforts, such as Cowles et al. discuss supranational developments only in relation to their ontological relevance as a source of adaptational pressures, while paying major attention to analyzing the structural changes brought about in the ensuing processes of domestic adjustment. A key argument here is that Europeanization emphasizes domestic conditions, as pressures “from above” might not necessarily translate into eventual changes in the absence of factors that facilitate (or obstruct) the influence of such forces (Cowles et al., 2001, p.2). Radaelli argues in this regard that Europeanization could be seen as a post-ontological research agenda, where “theoretical effort...is all about bringing domestic politics back into our understanding of European integration” (Radaelli, 2004, p.3).

A more detailed description of the “top-down” analytical framework provides a chance to map out the critical discussions, shaping the current state of the Europeanization field. A starting point of research in the developed outline is the presence of a structural miss-match, determined as a degree of “misfit” between European-level “processes, policies and institutions” and such “processes, policies and institutions” at the domestic level (the so-called “goodness of fit” logic) (Cowles et al., 2001). This degree of incompatibility determines the intensity of pressure, where higher or lower levels of misfit imply stronger or weaker incentives for adjustment. As a second step the authors construct a palette of domestic factors intermediating the impact of “top-down” pressures on “domestic structures”, including inter alia multiple veto points, existing political and organizational cultures, formal and informal institutions, interests and identities etc. Thus, the logic of the depicted model can be illustrated by the following diagram (Radaelli, 2004):

Pressure caused by European Integration => level of misfit => intervening factors => changes in
domestic structures

What immediately appears as problematic is the excessive focus on formal structures, mechanistic reconfigurations and institutional adjustment. In this respect Dyson and Goetz argue against attributing a fixed, absolute value to system-wide polity features and structural inconsistencies in search of “end state” effects, emphasizing the possibility of their interpretation

and renegotiation in the course of the policy process (Dyson and Goetz, 2003). On a more general level the issue falls within a broader debate on the development of contemporary institutionalism. Building on DiMaggio and Powell (1991) and Giddens (1984), Gualini conceptualizes a clear-cut distinction between classical institutionalism, characterized by a “restricted, formalistic, prevailingly static conception of institutions” (institutionalization as a property) and “new” institutionalism, implying non-formalized institutional settings and modes of interaction (institutionalization as a process) (Gualini, 2004, p.61-62). The bottom line is that any holistic approach should reconcile the formal and processual dimensions of institutionalization in order to avoid deterministic explanations of change.

Accordingly, Börzel and Risse (2003) bring in a number of precisions allowing the “top-down” approach to account for dynamism and agency. On the one hand, the authors re-conceptualize the scope of potential impacts on domestic arrangements by extending the list of affected components to “processes” and “policies” (to which Olsen also adds “cognitive and normative structures”) (Olsen, 2002) and distinguishing between policy and institutional misfits. On the other hand, they contextualize the reactions of existing agents of change by stipulating the factors influencing their behavioral patterns. Here, Börzel and Risse mostly draw on rational-choice theory (cost/benefit considerations) and social institutionalism (identity considerations, subjective factors, social expectations), while separating nominally the two sets of factors under two mechanisms of change – “consequentialism” and “appropriateness”. Taking those authors’ contributions a step further and focusing specifically on policy areas Wade Jacoby first adds a third type of institutionalism – a historical one, dealing with historically situated constraints to institutional and policy choice - and second opts to disentangle the different modes and outcomes of the process of adaptation (which the author identifies as “emulation”) (Jacoby, 2006). Jacoby is also one of the scholars to emphasize the importance of policies as dynamic environments, where the outcomes of domestic adjustment are shaped by specific endogenous factors within policy areas (e.g. density of rules and regulations, level of coercion), as much as by the unique exogenous features of the policy contexts (e.g. networks of actor constellations) (Ibid).

Approaching the “three-step” framework from a different perspective allows to bring into focus another crucial debate in Europeanization literature, concerning rivaling opinions regarding its “chain-of-command” logic and focus on pressures “from above”. Several authors contend that gearing top-down research designs to the dynamic features of adaptation processes (e.g. existing

actor networks) is still limited by the usage of a linear causal hypothesis, implying a narrow, static concept of “impact” and uni-directional patterns of reaction to “Europe (Radaelli, 2004). Attempts to forecast the (un)likeliness of reform by linking the number of veto-points and types of political leadership to potential results in mechanistic ways might predict the answers (Héritier and Knill, 2000). The expected “outcomes”, therefore, appear deterministic, suggesting similar homogenizing effects in different political and institutional contexts (Börzel, 1999) and increasing cross-national convergence (Bache, 2003). At the heart of this “convergence” paradigm is the assumed existence of an European “normative order, based on overreaching constitutive principles, structures and practices” (Olsen, 2002, p. 923), whose imposition in national environments is expected to shape domestic institutions in a uniform way, leading to increasing congruence of practices and rules. However, such a view is heavily contested by scholars and practitioners alike. On the one hand, authors point at the lack of a clear European model that could serve as a common gravitational pull to actors, situated in different institutional environments (Page and Wouters in Radaelli, 2000). On the other hand, as shown by practical studies “there is more empirical evidence pointing towards a differential impact of Europe than towards convergence” (Radaelli, 2004, p.5).

Furthermore, the relevance of “top-down” pressures as a trigger to domestic adaptation is challenged by an increasing number of Europeanization studies. On the macro level, Bulmer observes that the EU does not systematically produce “misfits” in the sense of stipulating concrete institutional designs and/or requiring specific formalized procedures for their implementation by national administrations. Therefore, “the goodness of fit” framework only works in policy areas where such models and procedures exist (Bulmer, 2007). In the absence of persistent institutional “misfits”, however, changes in domestic arrangement cannot be explained by coercive pressures, suggesting different mechanisms at work. Thus, Héritier and Knill view European inputs as a source of political leverage that might be exploited by domestic actors as a tool for opportunity-optimization within political interaction (Héritier and Knill, 2001). Examples are cases where the impacts of European developments coincide with endogenous processes, rendering irrelevant the extent of existing inconsistencies and providing domestic political entrepreneurs with an opportunity to legitimize policy choices (Morlino, 2003, p.7). Consequently, actor efforts to “improve their relative positions in the domestic political conflicts” by using the new opportunities alters the conditions under which change takes place in policy

arenas, leading to transformation of the existing opportunity structures (Héritier and Knill, 2000, p.2-3).

The two mechanisms of change described above correspond to the forms of institutional isomorphism, defined by DiMaggio and Powell (1983) as “coercive” and “mimetic” adaptation and identifying change developments in response to (respectively) “alterations in the rules governing policy areas” or the behavior of a dominant actor. In a complementary contribution, Radaelli (2002) distinguishes between “vertical” and “horizontal” Europeanization, where the former stands for imposition of rules in a hierarchical progression between the European level as the locus of policy formulation and the domestic level, where policy has to be implemented. In contrast, “horizontal” Europeanization implies a different process of change in the absence of pressures, where adaptations are triggered by the market (regulatory competition) or socialization (framing). Moreover, in the case of “vertical” adjustments the outcomes of Europeanization are associated with convergence of practices, while “horizontal” adaptation implies differential empowerment of the actors, populating separate policy arenas (Radaelli, 2002).

In the context of the foregoing considerations several conceptualization efforts have opted for approaching Europeanization from a different, entirely actor-based perspective (as opposed to the institution-based perspective presented above) (Knill, 2001). Those challenge traditional conceptions of domestic adaptation as the outcome of endogenous prescriptions. Even if tangible adaptational pressures are generated by existing institutional “misfits” their presence cannot always explain change: domestic actors might adapt to “Europe” independently of such pressures (Radaelli, 2006). Therefore, adaptation should be entirely associated with domestic processes and how European inputs have been accommodated within a specific policy sector at home. Gualini (2003) explains this approach by distinguishing between exogenous and endogenous interpretation of institutional change. In the first instance the focus of Europeanization is on institutions as sets of structures, constraining the behavior of domestic actors, where the latter are forced to “internalize” exogenous solutions as they threaten the persistence of existing domestic arrangements in the conditions of low legitimacy and uncertainty. On the contrary, in endogenous interpretations the focus is on the dynamics of emergence of institutions, where collective action is both an incremental outcome of change and, by influencing the conditions for creation of new institutional settings, a catalyst of institutional change. As a result, European and domestic environments are interlinked in a process of continuous co-evolution and mutual re-adjustment,

where policies shape the parameters of politics and vice versa (Gualini 2002, p.63-71). In a complementary study Börzel somehow mechanistically conceptualizes Europeanization as a “two-process”, involving both “uploading” content to the supranational level by EU member states and then “downloading” what has been negotiated within the domestic contexts of member-states (Börzel, 2001).

The above discussion is consistent with the emergence of so-called “bottom-up” approaches to Europeanization, where institutional changes are studied through the prism of domestic systems of interaction as a way to research how the accommodation of Europe is reflected in the evolution of institutional settings in different policy areas (e.g. Thatcher, 2006). According to Radaelli it is in line with the recent developments in European governance research, as well as the increasing importance of domestic policy arenas as host environments of institutionalization developments with the European Union (Radaelli, 2006). Two advantages of “bottom-up” approaches are important within the scope of the current work. On the one hand, a focus on domestic arrangements allows identifying domestic policy changes with rivaling mechanisms of Europeanization (Giuliani, 2003). On the other hand, by switching the role of Europeanization from an explanatory framework for domestic change (structure) to the problem that needs to be explained (process) (Radaelli, 2006, p. 4), utilizing “bottom-up” approaches provide an opportunity to account for policy outcomes through investigating the process of domestic change. Despite their benefits, however, “bottom-up” approaches also seem to suffer from at least two important limitations. First, as they share the same pool of intervening variable with “top-down” approaches (derived from institutionalist theories) the validity of the achieved results in “bottom-up” studies could be questioned as the absence of concrete pressures does not represent a sufficient marker of a bottom-up dynamic. Second, by putting the emphasis of Europeanization on the temporal dimension of policy (and in the long term polity) change, as well as the gradual evolution of policies such approaches seem not to be particularly suitable for investigating abrupt policy shifts in response to exogenous or endogenous shocks.

Aiming at holistic synthesizes a few studies have attempted to integrate the existing Europeanization approaches into comprehensive analytical frameworks, conducive to studying patterns of variation in domestic policy outcomes within the EU. Two of the most accomplished efforts in this regard have been carried out by Bulmer and Radaelli (2004) and Bauer, Knill and Pitschel (2007), both of which incorporate institutionalist and actor-centered elements in their

research outlines. Their basic tenet is that explaining the nature and varying degree of change at the domestic level should be approached through the functioning of different Europeanization mechanisms, depending on the dominant governance patterns operating in particular policy sectors. In this context the literature distinguishes between policies, where supranational regulation aims at controlling and remedying harmful effects caused by the functioning of the common European market (e.g. social and consumer protection, agriculture, environmental policy etc.) and policies, where European-level regulation is intended to ensure that the market functions effectively (e.g. energy, transport, telecommunications etc.) (Radaelli, 2002, p.6).

In the first type of governance mechanism, named by Bauer et al. as “governance by compliance” the intention behind European-level regulatory regimes is to *impose* constraints on domestic actors in order to establish “a sound environment” for the participants of the market (Bauer et al., 2007, p.408). Within such policy areas governance operates via positively prescribing concrete negotiated solutions, whose vertical introduction (or “downloading”) in different national contexts is designed to achieve specific regulatory goals (e.g. uniform application of social protection standards, environmental safeguards etc.) (Knill and Lehmkuhl, 2002). The impacts of Europeanization, therefore, are entirely based on “top-down” coercive pressures: adaptation processes are driven by exogenous constraints and incentives to legitimize particular policy choices in order to sustain the survival of institutional and/or organizational settings (Gualini, 2002, p. 65). In terms of impacts community policy measures are directed explicitly towards “first order” instrumental adjustments in national regulatory arrangements (Hall, 1993), while domestic institutional compliance is crucial for the effectiveness of policy outcomes (being thus the focus of considerable EU scrutiny, including through investigation by the European Commission and/or penalty procedures by the European Court of Justice) (Radaelli, 2002). Within this context domestic factors are important to the extent that the degree of institutional compatibility and interest network constellations determine the degree of compliance. Consequently, in defining their respective models Bulmer and Radaelli (2004) focus on the importance of “command and control” enforcement mechanisms and the coercive nature of the regulatory constraints (“positive mode” of “governance by hierarchy”), while Bauer et al. (2007) emphasize the existence of concrete supranational models and their imposition through domestic compliance measures (“governance by compliance”).

There is a substantially different logic at work behind regulatory patterns aiming to *remove* constraints that distort the market, described as “governance by competition”. At the heart of this governance mechanism is an “emerging pattern of regulatory competition” in the European Union, where increasing economic interdependence has launched a “race-to-the-bottom” in regulatory standards, characterized by member states’ efforts to remove national barriers in line with community requirements (Bauer et al., 2007). Instead of prescribing concrete models European-level regulation is thus targeted towards abolishing certain categories of regulatory obstacles to trade, investment or economic mobility through imposing and effecting clear “market-making” rules (“negative integration”) (Radaelli, 2002). Therefore, governance in this case functions through altering “the rules of the game” within national policy contexts, leading to changing domestic opportunity structures and eventually challenging the established power balances among domestic-level actors (Knill and Lehmkuhl, 2002). As a consequence, rather than affecting particular domestic institutional arrangements policy outcomes have a pronounced influence on the contextual settings in which such arrangements operate (“second order changes”, Hall, 1993). In this instance the scale and magnitude of expected policy changes depends on how domestic actors internalize the balance of constraints and opportunities coming from the European Union. Therefore, there is a visible bottom-up dimension in regulatory competition.

An important aspect of “governance by competition” concerns the degree of potential changes at the domestic level. Bauer et al. hypothesize that the potential for substantial institutional change is higher in policy areas where the dominant mode of governance is regulatory competition. On the one hand, national administrations are less inclined to preserve existing structures as such “institutional reflexes” might impede their relevant competitive advantages in comparison to those of other participants on the common market (Bauer et al., 2007, p.411). On the other hand, the impacts of regulatory competition in terms of differential empowerment of domestic economic and social actors increases the chance that those actors will seek to intervene and impose their preferences to secure any envisaged gains, hinting at the high public and political salience of potential policy outcomes (Ibid, p.412).

A further discussion of the “competition” mode of governance takes into account the direction of domestic changes. As observed by Knill and Lehmkuhl while tilting the existing domestic balances through introducing new opportunities the EU does not ascribe any particular parameters to the resulting new equilibria (Knill and Lehmkuhl, 2002, p.258). In the absence of

compensatory mechanisms the outcome of alterations in opportunity structures might increase the existing asymmetries between advantaged and disadvantaged actors within national policy environments, influencing in turn the level of compliance and the degree of regulatory reform in general. Therefore, in contrast to the “compliance” governance mode, in “competition” the potential for policy change is determined by the specific structural characteristics of the incumbent policy settings at the domestic level. This point is supported empirically through the study of Héritier and Knill (2000) on policy change in telecommunications across five EU member states (Germany, Italy, Britain, Netherlands and France). The authors come to the conclusion that genuine policy change is most likely to occur in fragmented policy contexts where power and resources are distributed evenly among actor networks, as competition for benefits stemming from the new opportunities might tip the scales in the direction of regulatory change. On the contrary, if domestic actor constellations are characterized by uneven distribution of power skewed towards the dominant position of a particular actor (individual or network) policy change is unlikely to take place, unless this actor is a proponent of the regulatory reform (Knill and Lehmkuhl, 2002, Adam and Kriesi, 2007). It is logical to assume, therefore, that in such domestic settings European inputs might entrench, rather than even the existing winner/loser disproportions, which in turn might lead to policy deadlocks and sustained inertia, as described by Radaelli (2002).

Mapping the potential effects of European-level regulation on domestic policy environments, characterized by asymmetric power relationships demands a closer look at the existing conceptualizations of state capture and policy equilibriums. Those conform to the notion of regulatory capture, developed in the work of several early proponents of economic regulation theories, most notably members of the so-called Chicago School (Stigler, 1971, Posner, 1974, Peltzman, 1976). Building his theoretical model on Olson’s logic of collective action (Olson, 1971) Stigler argues that economic regulation is targeted and captured by effective interest groups, who are willing to maximize their profits through harnessing the power of the state to redistribute wealth. The potential of interests to benefit from regulation is a function of their size and internal homogeneity: small, cohesive groups (big producers) have a stronger incentive to mobilize as the benefits of extracting gains outweigh the costs of exerting political influence; on the contrary, it is more difficult for large and fragmented interests (small firms, consumers) to efficiently overcome the cost barrier associated with regulatory capture, as their benefits from

mobilization are smaller (Stigler, 1971). A major concern with Stigler's model is the exceptional focus on the demand side of regulation, while the rationale behind regulators' decisions to grant access to particular actors is largely neglected.

Consequently, the model of regulatory capture has been updated by Peltzman who attempts to build a broader theoretical framework, incorporating both supply and demand factors. According to Peltzman as regulators strive to maximize political support from different constituencies they are inclined to balance between the demands of competing interest groups when distributing wealth (Peltzman, 1976). The risk of regulatory capture is higher when the gains of receiving support from large industry players outweigh the cost of losing the support of consumers. However, the latter rise with the potential of consumers to mobilize and withdraw their support if regulatory decisions "veer too far in one direction" (Baumgartner and Jones, 2002, p.10). As a result, a regulatory equilibrium is reached when support is evenly distributed among competing interest groups.

Peltzman's model is relevant to studying how the relationship between "clientele characteristics and bureaucratic resource allocation" produces winners and losers in economic regulation (Bendor and Moe, 1985, p.756). However, it also suffers from visible deficiencies: "regulators" are positioned as an abstract category, identifying institutional decision-making authority with the activity of a single compound entity that disregards the distinctions and interactions between regulative agencies and legislators, as well as between politicians and bureaucrats. Interest groups are also stipulated as a binary category of producers and consumers, while important actors, such as environmental activists, are omitted from the model. It also does not explain the conditions under which stabilization occurs when regulatory provision strays too far away from the social optimum.

The first two issues are addressed by Bendor and Moe who theorize a dynamic "triangle" model which maps the flow of influences between legislatures, agencies and interest groups, while assuming a simple process of bureaucratic response to actor inputs: decision-makers adapt to the interests providing greatest utility maximization, without making efforts to optimize the system (Bendor and Moe, 1985, p.757-758). In this regard, later conceptualization attempts in the field of state capture elaborate considerably on the interaction patterns between public actors and private interests, extending the scope of the notion well beyond the classic "iron triangles" (as defined in

Weingast, 1981). For example, Hellman and Schankerman distinguish between two types of linkage running in two directions – from the state to the companies (“the grabbing hand”) and from enterprises to state officials (extraction of state resources) (Hellman and Schankerman, 2000, p.548). Incorporating the two dimensions, Grzymala-Busse defines ruling elites of “individuals, oligarchies, factions, or parties”, tapping in the legal enforcement and regulatory functions of the state in order to extract private gains and lower the costs of exit (Grzymala-Busse, 2008, p.640). As to the modes of exchange between demand and supply, Kitschelt outlines various forms of clientelistic effort, ranging from outright gifts to preferential access to public procurements and selective application of regulatory rules, finding positive correlation in the latter two cases (Kitschelt, 2011a).

Baumgartner et al. address the issue of stabilization in existing policy equilibriums by focusing on the effects of actor-specific factors (True, Jones and Baumgartner, 2007, Baumgartner and Jones, 2002). The authors distinguish between two major mechanisms of policy change, defined as “negative” and “positive” feedback. In negative feedback systems homeostatic forces maintain stability by counter-balancing external pressures. Thus, the excessive concentration of demand in a particular segment of the system activates self-correcting mechanisms that “reigns it back in”. In public policy negative feedback mechanisms translate into challenges to entrenched policy subsystems (“policy monopolies”) (Baumgartner and Jones, 2002, p.9-15). Depending on the level of capsulation of the incumbent subsystems and the timeliness of corrective action, disproportioned equilibriums either result in new equilibrium outcomes (that might “differ from the general good”) or eventual “disturbances”, caused by the mobilization of rival interests. On the contrary, positive feedback mechanisms work through reinforcing, rather than counterbalancing emerging trends. Here, transfer of information between actors, mimicking, desire to conform to the behavior of others, as well as shifting political agendas might trigger policy change. When a previously overlooked issue enters the macro-political arena, or more attributes of an issue become politically salient little changes in objective circumstances might cause substantial changes in policy processes. Alternation in periods of stasis and “disequilibrium” is defined as “punctured equilibrium” (True et al., 2002).

Applied to specific policy areas the above considerations pose particular implications in terms of the domestic impacts of “governance by competition”. Berry points out that the potential for “capture” by prospective beneficiaries is higher in regulatory areas, where benefits are highly

concentrated and costs are widely distributed, in contrast to areas where either benefits are more evenly distributed or costs are more concentrated, allowing for greater public scrutiny (Berry, 1984). Regulation of utilities and electricity in particular, is an example of the former. It is also prone to entrenched “policy subsystems”, stemming from its long history of established natural monopolies, exempt from competition rules and heavily guarded by national governments (Padgett, 1992). In addition, many of the core reforms envisaged in the sector, such as separation of generation and transmission activities, have been targeted towards reducing the anti-competitive behavior of incumbent companies and ensuring non-discriminated access to third parties, significantly reducing the benefits of rent-seeking behavior and implying a negative feedback dynamic (Jamash and Pollitt, 2005). In this regard Eising and Jabko conceptualize the existence of a *dual-institutional context* in the electricity sector, where the push towards liberalization reform at the EU level can be eclipsed by the inertia of existing institutional structures at the domestic level (Eising and Jabko, 2001, p.748). Empirical observations in two policy implementation contexts (Germany and France) have confirmed that the mobilization of pro-reform forces does not represent a sufficient factor of change if domestic institutional arrangements are too entrenched: only after national perceptions were altered through involvement in EU negotiations, extensive campaigning and attention shifting (positive feedback tactics) proponents of reform were able to gain leverage against incumbent “policy monopolies” (Ibid). To a certain extent Lodge conform to this view, but the authors’ own empirical study on four countries (Britain, Ireland, Germany, Sweden) and two regulatory areas (telecommunications, electricity) reveals a more balanced picture of Europeanization influences across national policy arenas. The author concludes that while Europeanization provided an important focal point for discussing crucial features of domestic regulatory policies, at least in one case (Germany) domestic response translated into resistance to policy change that threatened the privileged position of established structures (Lodge, 2002).

Finally, the specific context of Central and Eastern Europe should be taken into account when discussing the potential of regulatory competition to trigger domestic change. Two factors are of particular relevance: the considerable market for state capture in the region and the lack of proper self-correcting mechanisms that can stabilize the system in cases of skewed equilibria. Shleifer argues in this respect that regulation is a good option only in societies, where rent-seeking behavior by public or private actors can be controlled through relevant checks and balances.

States characterized by powerful executives and lack of democratic restraints are particularly susceptible to capture, as politicization can increase the risk of regulators applying the law selectively among their enemies and rule-violators (Shleifer, 2005, p.446-447). Mirroring those observations is a seminal empirical work by Hellman, measuring state capture in post-communist economies (Hellman, 1998). The author concludes that the pace of reform in newly formed democracies in the CEE region has been determined not by the short-term losers of economic transition (as officially accepted, see), but rather dominated by the net winners. The latter have thwarted macroeconomic stabilization in order to preserve their profits stemming from prolonged market distortions. In other words, while short-term winners have allowed some form of quasi-reforms they have also subverted more thoroughgoing efforts in order to cement their advantages, forming a '*partial reform equilibrium*'. Thus, advances in market liberalization and privatizations have not been accompanied by relevant institutional and legal reforms, as necessary limits to rent-seeking behaviors. A later study led by the same author divides former socialist states in high and low capture countries, arguing that in cases of thriving capture markets firms obtain more gains by "skewing the basic rules of the game", while in more constrained capture markets firms benefit the most from procurement kickbacks (Hellman et al., 2000, p.15). Moreover, once states reach a certain capture threshold "a self-reinforcing dynamic is generated that propels state capture to even higher levels" (Ibid, p.7). Building on Hellman's conclusions Hollyer substantiates a hypothesis, according to which European Union conditionality during the accession process of CEE countries might have created crucial conditions for long-term alterations in the regions' state capture levels. The author observes that existing entrenched elites are vulnerable to external pressures as their power to influence the state diminished rapidly if new entrants are allowed to enter the market. New entrants themselves are more inclined to follow substantial liberalization efforts, thus further driving the reform thrust (Hollyer, 2010).

In conclusion, there are three observations to be made in regard to the above literature review. First, a great deal of the existing Europeanization literature focuses on the application of either "top-down" or "bottom-up" approaches, with little attention paid to the specific governance mechanisms at work in different policy areas. Second, empirical studies on cases, where Europeanization works through changing domestic opportunity structures (regulatory competition), are scarce or concentrate mostly on EU15. Third, the question of how community

regulatory regimes affect domestic policy environments, characterized by skewed regulatory equilibriums, has not been covered sufficiently in the existing literature.

2. Research design

2.1. Concept formation. Policy inputs, outputs and domestic contexts

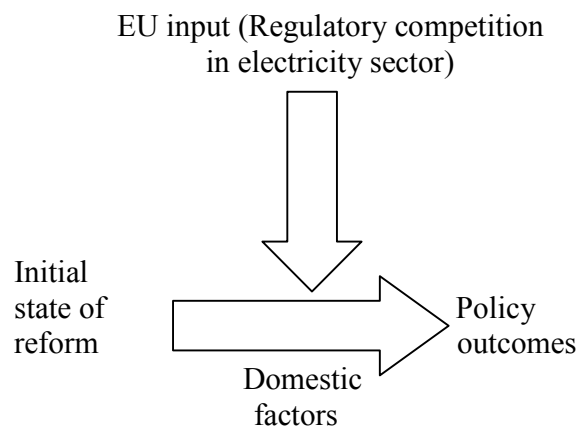
The ideational premises of the research step on the following progression of conceptual propositions. At a basic level, the targeted policy issue (electricity liberalization) falls within a sector of utility regulation, governed by regulatory competition (as defined by Bauer et al., 2007). Consequently, European inputs operate not by means of convergence-inducing mechanisms, such as institutional misfits and prescribing particular outcomes, but rather through pushing towards domestic rule re-adjustment in line with certain standards of market behavior (i.e. demonopolization and removal of competitive distortions) (Knill and Lehmkuhl, 2002). As a result thereof, domestic adaptation to such inputs can either induce shifts in the institutional settings of EU member states (changing opportunity structures), resulting in absorption of rules, or lead to sustained domestic inertia, depending on context-specific mediating factors (Radaelli, 2002, p.116-117). In this regard, understanding divergent policy outcomes across national policy environments in the area of electricity liberalization demands looking at how and if the results of adaptation to European inputs are reflected in the outcomes.

The underlying logic of the research thus speculates a pattern of causation, according to which national decisions to comply with community liberalization requirements are posed as the product of domestic reactions to external inputs: regulatory compliance and pursued market liberalization correlate with policy change, while failure to comply implies either entrenchment or prolonged inertia.

Consequently, the research outline incorporates three distinctive components. In the scope of the current work *policy outcomes* are conceptualized as the results of a continuous process of adaptation to formally negotiated EU-imposed “market-making” rules leading to eventual incorporation in national legal orders. The accent here is on the willingness and capacity of the EU member-states to comply by transposing regulatory standards rather than on the ‘final’ implementation of already established rules through practical measures and administrative procedures (Lampinen and Uusikyla, 1998).

The second component concerns *European inputs*, perceived as external perturbations, affecting the domestic policy landscapes of the target EU member-states by altering the underlying patterns of resource distribution, shifting policy agendas or “opening and closing venues” in policy subsystems (Sabatier and Jenkins-Smith, 1993). The impacts of their adoption by domestic actors may either match the intended effects of external requirements or veer away from prescribed rule content.

With respect to the third component, defined as *domestic policy contexts*, what bears significant importance to the analysis is their relevance as loci of dynamic interplay between actors and institutional arrangements. The specific features of the latter condition the empirical linkage between particular outcomes of rule transpositions and the impacts of EU regulatory regimes. Moreover, an emphasis is put on the historically embedded characteristics shaping the pre-emptive balance of power within domestic policy settings, as changes in utility regulation aim at changing the “rules of the game” (second-order change), rather than targeting directly system-wide institutional and/or organizational configurations (first-order change) (Hall, 1993).



2.2. Research paradigms and methodological aspects

In line with the logic and the key components of the proposed conceptual model the research framework takes into account two key methodological perspectives. First, the envisaged analysis starts from concrete outcomes in particular cases of domestic adaptation to regulatory requirements (compliance success/failure in Czech Republic/Bulgaria) as dependent variables

and intends to build a comprehensive explanation around the identified causes. Therefore, it is a “causes-of-effects” study (as opposed to “effects-of-causes” attempts), implying a deeper understanding of the impact of particular intervening variables (see below) in a restricted sample of cases (sectoral policy contexts in two EU member states) (Mahoney and Goertz, 2006). In addition, the emphasis of the research is on multi-variance, since the intention is to explain the connection between disparate effects and the varying parameters of interacting domestic factors (Mahoney, 1999).

Employing the above tactic facilitates the establishment of causal relationships between divergent outcomes and potential causes in comparable domestic policy environments. However, it is not convincingly positioned to confirm the hypothesized causal link between observed domestic changes (or lack thereof) and EU-level influences. Hence, the research calls for a complementary strategy as a means for assessing member-states’ policy choices in light of historically situated interchanges between European and national policy dimensions (temporal perspective) (Exadaktylos and Radaelli, 2009). The goal is to trace the relation between EU inputs and domestic systemic features in a backward direction from an initial state of domestic arrangements in the two cases to successive critical historical junctures (“backward mapping”, Elmore, 1979, Exadaktylos and Radaelli, 2009). In this regard, the series of events in domestic electricity sectors will be sequenced according to a timeframe, taking as a starting point the pre-accession period of economic transition in the two selected cases and moving on to the incorporation of the requirements of the three consecutive energy packages of the European Union.

An important methodological aspect that needs to be clarified before proceeding to explanatory variables is whether the utilized research outline represents a top-down or a bottom-up approach according to the distinction made by Radaelli (2004). The most comprehensive response would be that the design of the research incorporates both top-down and bottom-up dimensions, with a marked prevalence of the latter. On the one hand, European inputs are taken into account as a source of constraints and opportunities with direct impact on domestic policy choices, albeit in the absence of the top-down pressure mechanisms, associated with institutional inconsistencies. On the other, the emphasis of the work is clearly on the domestic level, where observed changes are explained as a consequence of the interaction between specific settings and EU inputs, implying a visible bottom-up perspective.

2.3. Domestic factors and operationalization

A first step towards tracking down the reasons for (non-)compliance with EU regulatory requirements is to capture the state of policy developments within the specific sector of interest (electricity) in relation to the policy issue at hand (liberalization) in the two selected country cases (Bulgaria and Czech Republic). Thus, the research will commence by mapping this state against a set of indicators, determining the *degree of liberalization* at a specific point in time. Drawing from Jamasb and Pollitt (2005) there could be identified three key inter-related implementation steps in this respect: 1) sector restructuring (ensuring a suitable market structure through unbundling vertically integrated activities and tackling horizontal concentration); 2) introducing competition in wholesale and retail supply markets and 3) effective regulation (third-party access /TPA/ and incentives to transmission and distribution networks) (Jamasb and Pollitt, 2005, p.12-16). Within this three-step assessment frame a low degree of liberalization can be conceptualized as the combination of modest restructuring progress, persistent barriers to new entry and the lack of a competent controlling mechanism (independent regulator) able to tackle TPA and horizontal concentration. Alternatively, completed vertical unbundling, high levels of competition and effective independent regulators would indicate a high degree of liberalization. In terms of causal patterns inconsistent liberalization translates into a low level of congruence with EU liberalizing demands, generating both considerable challenges in terms of rule transposition and a wider scope of opportunities to domestic actors, as more is at stake. In the opposite case the high level of congruence tones down both challenges and opportunities (Héritier and Knill, 2000).

With respect to domestic actors, as “governance by competition” (Bauer et al., 2007) is specifically intended towards re-shuffling the existing rules of market behavior, the *patterns of incumbent actor constellations* and the institutional features of *preeminent modes of interaction* become essential for understanding the impact of community requirements. A common macro-analytical approach in Europeanization studies ascribes an important role to the number of formal and factual veto positions, constraining the institutional capacity of EU member states to generate policy change (Börzel and Risse, 2003, Radaelli, 2002, Haverland, 2000). Many formal veto points are usually found in policy contexts, characterized by decentralized political systems and multi-party coalition governments (Héritier and Knill, 2000). In contrast, factual veto positions abound in systems where corporatist traditions, strong socio-economic interests or clientelistic

relationships have particular influence on policy-making (Lehmkuhl, 2002). The power of veto points can be reined in by a strongly integrated political leadership and a consensual style of decision-making, capable of accommodating and reconciling the divergent interests (Héritier and Knill, 2000, p.2-3). Thus, change is less likely to occur in policy arenas where decisions need to overcome multiple conflicting positions in the absence of politically integrated leadership, while fewer veto points and a consensual leadership facilitate adaptation progress (Ibid.).

Identifying the macro-level characteristics of domestic policy contexts has certain practical implications as a diagnostic tool in the initial stages of the analysis. However, the comparative component of the current study demands a closer look at *how power is distributed among the different actors populating a policy context*. As a starting point the “advocacy coalition” framework, developed by Sabatier and Jenkins-Smith provides an opportunity to configure actor constellations as aggregates of dynamically interacting units, or advocacy coalitions, constrained in their actions by the structural attributes of the policy context (Sabatier and Jenkins-Smith, 1993). Within this framework mature policy subsystems are defined by the existence of stable “semi-autonomous” communities, incorporating participants with significant expertise and extended record of exerting influence in a policy area (Ibid.135-136). What is of interest to the current study is the emphasis of the advocacy coalition approach on the stability of the existing communities over time and the importance of external factors as triggers of policy change: the existing policy equilibria is challenged by changes in the dynamic factors, affecting the policy environment, including policy decisions from other subsystems (Sabatier and Weible, 2007, p.193). Therefore, increasing adaptation pressures stemming from changes in the community-level regulatory regime on competition rules can be perceived as a dynamic external factor, challenging the established domestic policy communities in the area of electricity liberalization.

A second step in the analysis of actor dynamics is to look at the *established power structure* within a policy area. Here the application of network analytical approaches (Rhodes and Marsh 1992, Adam and Kriesi, 2007) could yield considerable benefits as they shed more light over the dispersal of influence capabilities over the set of actors, operating in a specific policy domain. Consistent with such theoretical efforts is the basic assumption that network participants do not possess equal power to influence the policy-making process (Kriesi and Jegen, 2001). As a consequence, interaction among actors approximates a competitive game for influence, which can result in significant concentration of power in a dominant coalition, as opposed to a fragmented

landscape of equally empowered policy actors (concentration vs. fragmentation argument, as observed in Europeanization literature, see Knill and Lehmkuhl, 2002, p.260-261).

The existence of a dominant coalition parallels a “policy monopoly” (Baumgartner and Jones, 1993, p.7), indicating a political equilibrium “tipped” towards a powerful interest group, which is usually less amenable to substantial change. Moreover, considering the fact that structurally a dominant coalition can incorporate various actor types (both state and non-state) (Adam and Kriesi, 2007, p. 134) it also closely resembles informal “policy communities” that could be found in national electricity sectors, including powerful industry companies, legislators, regulatory authorities, professional organizations and individual experts. A major insight derived from the above considerations postulates policy change in response to European liberalization requirements as causally linked to the existing power balances within domestic policy contexts: if existing veto positions are concentrated within a dominant coalition of actors with power to block policy decisions change is highly unlikely.

The *level of state capture* in electricity sectors has a critical role in this respect as an indicator, measuring the potential for policy monopolization within domestic policy contexts. As by definition state capture increases the profit of small consolidated interest groups, thriving on sustained privileged positions in resource distribution, it matches the profile of natural monopolies in the utilities sector (Stigler, 1971). Moreover, as the profits of such vested interests are usually protected by barriers to competition, they are incentivized to increase their influence over regulatory authorities, being highly susceptible to diminishing returns in case the existing restrictive practices are challenged (Hollyer, 2010). Removing competitive disadvantages (nee liberalization) in this regard is a way to balance the existing asymmetries between winners and losers within the policy process. Inasmuch as increasing openness is a prerequisite for change, however, it does not translate directly into a level playing field. In the short term it may actually retrench the dominant position of an actor coalition by introducing new opportunities for extraction (Hellman, 2000), where only the format of rent-seeking behavior is modified (from monopolies to “patronage” networks, glued together by clientelistic public-private relationships). However, introducing democratic oversight has been identified as a factor, decreasing the level of state capture over time (Young, 2011). In addition, competitive resource allocation improves its efficiency as rent-seeking actors are willing to “insulate state institutions from political influence” if faced with a growing probability of exit from office and respectful punishment in

case their illicit activities are revealed (Grzymala-Busse, 2008, p.651). Therefore, in the scope of the current work the level of policy monopolization will be indicated as *high* in policy contexts, determined by high levels of state capture, low democratic accountability and inefficient oversight mechanisms (i.e. judiciaries, civil control, regulatory authorities, state competition commissions etc.). On the contrary, policy monopolization is found to be low in policy environments where state capture practices are effectively restrained by oversight institutions.

The number and type of veto players, specific institutional features and the shape of the existing power balances are indispensable domain-specific situational variables that determine the *potential for policy change* within the policy sector of electricity liberalization. However, those are necessary, but not sufficient factors within the scope of the current framework (Ragin, 1987, p.99). In order to satisfy the condition for dynamism the research also needs to examine the means through which the existing reform potential is materialized into concrete policy choices. Taking into consideration the distinct actor-centered direction of the work, studying policy change becomes a matter of exploring how the interaction between EU inputs and domestic policy preferences translates into particular patterns of actor behavior.

In this context, a separate analytical angle introduces *policy salience* as a factor conditioning the absorption of external policy influences into existing preference structures at the domestic level. Within the present outline policy salience can be conceptualized as the extent to which liberalization appears as a contested issue within the domestic policy contexts of the selected country cases. The existing academic literature distinguishes between “high” and “low” salience of policy issues but provides few measurement tools to validate the use of these categories. In this respect, three important indicators are identified in Cortell and Davis (2000) as relevant to measuring the degree of policy salience – whether the policy issue has entered the domestic political discourse, whether it has led to the formation of organized societal groupings in support of policy change and whether it has produced a concrete policy agenda.

In regard to the first indicator the work uses the definition of discourse as an “interactive process”, introduced by Schmidt and Radaelli (2004, p.195) in relation to the influence of particular groups on policy construction. The second indicator is interpreted as the degree of fit between policy content and the interests (in terms of material resources, beliefs and policy priorities) of domestic actors: a stronger fit indicates a higher degree of salience (Cortell and

Davis, 2000, p.77). A policy agenda is present where specific government working groups have been set up to device policy choices in response to external prescriptions (Ibid, p.70). Consequently, salience is low in cases where liberalization has entered the domestic discourse but has failed to incentivize group formation or a particular agenda. On the contrary, high salience is identified with high public resonance of liberalization, the existence of competing interest groups and the obligation of state actors to defend their positions against both such groups and the general public (Adam and Kriesi, 2007, p.142).

The content of the identified domestic factors is summarized in the following table:

FACTOR	CONTENT
Level of electricity market liberalization	<ul style="list-style-type: none"> ▪ Separation of transmission from generation and supply /vertical unbundling/ ▪ Competition in wholesale market ▪ Independent and efficient regulatory authority
Reform capacity	<ul style="list-style-type: none"> ▪ Number and type of veto points ▪ Pattern of power distribution across actor populations <ul style="list-style-type: none"> ▪ State capture potential ▪ Presence of efficient democratic constraints
Level of salience	<ul style="list-style-type: none"> ▪ Presence of liberalization in domestic political discourse ▪ Degree of fit between policy content and actor preferences/ Forming actor coalitions <ul style="list-style-type: none"> ▪ Presence of defined policy agenda

2.4. Data gathering

Within the scope of the current work studying variation in domestic responses to EU inputs will be realized through comprehensive contextualization of a number of hypothesized causes of policy change. Therefore, the research design of the work seeks to build relatively

exhaustive profiles of the domestic policy contexts of two selected EU member-states by incorporating a synthesis of institutional and actor-centered analytical perspectives. Consequently, it draws on data derived from both qualitative and quantitative primary and secondary sources.

The degree of liberalization within national electricity sectors will be identified on the basis of a brief analysis of relevant national-level legislation (primary and secondary law), strategic documents (state energy policy concepts and plans of action) and historical accounts of developments in the sector (official reports and author studies).

Levels of state capture and clientelism will be measured both quantitatively (through formalized measurement indices, such as the EBRD Business Environment and Enterprise Performance Survey /BEEPS 1999-2009/ (as analyzed in Hellman et al., 2000), plus data, collected within the remit of the Democratic Accountability and Linkages Project, implemented by Duke University) (as analyzed in Kitschelt, 2011a), as well as qualitatively (policy opinions, think-tank reports, analyses and interviews, found in domestic media).

A similar method will be used to measure democratic consolidation within the selected cases: two primary sources will provide quantitative data (the Nations In Transit survey, developed by Freedom House, together with the Transformation Index BTI for East-Central and Southeast Europe /2008-2012/ of Bertelsmann Stiftung), while the efficiency of oversight institutions within the energy sectors will be measured against a checklist, developed by EBRD.

Policy salience will be determined through a brief monitoring of domestic media at major junctures of policy progress, as well as 3 semi-structured interviews (2 in Bulgaria and 1 in the Czech Republic) with experts and professionals in the area of energy markets.

2.5. Building causal relationships

There are two basic causal mechanisms identified in the scope of the present research design. Their elaboration steps on an understanding of compliance decisions as the product of domestic calculations over the burdens and benefits of EU-level requirements. Here, the interplay of national factors and external influences reflects on the interests and positions of the actors, included in a policy domain.

In policy contexts where EU inputs are perceived as a *constraint* – namely those characterized by a skewed balance of power between a dominant actor/advocacy coalition and a host of fragmented “outsider” players, marked propensity for regulatory capture and fewer democratic constraints - European liberalization prescriptions are unlikely to result in timely or conclusive rule transposition. On the one hand, a policy monopoly can effectively block substantial rule readjustment for a long time by activating correcting mechanisms intended to keep the system in stasis. On the other hand, it is assumed that intensifying regulatory demands would be resisted by equally rigorous countervailing trends where powerful actor formations “guard” the entrance to the system in order to preserve steady outcomes (negative feedback mechanism, Baumgartner and Jones, 2002). This is particularly relevant to the policy issue of electricity liberalization, where external requirements are targeted explicitly towards eliminating the source of profit, that existing monopolies strive to protect.

Consequently, the more asymmetric power relations are in a policy subsystem the more European-level inputs are expected to increase, rather than decrease the existing asymmetries. Here, public salience is assumed to be at a low level as wider debate on liberalization is precluded by the absence of strong competing interest groups. The result is a self-invigorating ‘vicious’ circle that could be illustrated in the following way:

EU demands challenge existing policy monopolies => resistance and entrenchment/inertia => no policy change => no compliance with EU norms => no reform=> policy monopolies continue to thrive=>mounting external pressure

Eventually, maintaining the existing market distortions becomes unsustainable in light of diminishing returns to incumbent monopolists and/or the increasing risk of societal mobilization (Radaelli, 2002, p.116). However, in the short term lack of change may strengthen the dominant position of vested interests, increasing the gap between European prescriptions and domestic practices and allowing the incumbents to occupy the created vacuum.

Though important, it may not be entirely efficient to determine the outcomes of regulatory adaptation in a linear way through the existence of policy monopolies, enduring restrictions on participation or lack of democratic accountability. Such an approach neglects the potential of EU-level inputs to generate policy change or precipitate ongoing development by empowering the actors outside the status quo.

As noted above, the veto power of entrenched interests can be subverted by transforming *opportunity* structures (i.e. the number of coalition partners or access points in decision-making settings) (Héritier and Knill, 2000, p.2). The efforts of new competitors to enter the policy domain of electricity regulation, by using external inputs as a source of political leverage, may alter the structural attributes shaping the process of rule transposition (Ibid.). Here increasing policy salience plays a crucial role as a high degree of congruence between the rule content and the interests of newly formed groupings (new market entrants, consumers) may bring new aspects into the policy debate, prompting shifts in existing decision-making agendas towards compliance (positive feedback, Baumgartner and Jones, 2002). Moreover, changes caused by exogenous inputs are supposed to have more public repercussions in domestic policy contexts where interaction patterns between actors are based on more symmetric power distributions. As a consequence, incumbent networks may decide to go along with rule transposition if they perceive community-level regulation as a new source of profits that must be shared with other market actors rather than as a threat to existing privileges.

It is up to the current work to investigate whether in the negative case of rule transposition (Bulgaria) lack of compliance to community regulatory requirements is the result of weak empowerment of potential new entrants, lack of policy salience or the enduring dominance of an entrenched policy monopoly. In the positive case (Czech Republic) it is to be seen whether the success of rule transposition was due to a more balanced spectrum of power relations, strong differential empowerment or a perception of EU imposed rules as a tool for benefit maximization within the incumbent actor coalition.

2.6. Case selection

The current research framework strives to compare domestic policy contexts in member states of the European Union. For the purposes of the envisaged comparative analysis the single unit of “policy context” is interpreted as a bounded environment incorporating three distinctive structural components: 1) *actor populations*, consisting of competing actors, varying in number (pro-reform or veto players) (Börzel and Risse, 2003) and type (state, political parties, interest groups and non-governmental organizations) (Adam and Kriesi, 2007), characterized by a specific mode of interaction (advocacy coalitions, networks) (Ibid) and balance of power (concentration or fragmentation) (Héritier and Knill, 2001), resulting in a distinctive policy

equilibrium (balanced or asymmetric) (Baumgartner and Jones, 1993); 2) *national institutional settings*, consisting of patterns of policy-making, determined by system-wide attributes, such as political rules of conduct (consensual, competitive or conflictual) (Schmidt and Radaelli, 2006), modes of public-private interaction (statist, pluralist or corporatist) (Falkner, 1999) and democratic accountability mechanisms (independent courts, oversight institutions); 3) *public resonance* of electricity liberalization, reflecting a higher level of actor cognitive capacity to assess the pros and cons of EU inputs as a basis for pro-active positioning on policy choices.

The selection of specific country cases is realized on the basis of a “most similar systems design” matching technique, corresponding to Mill’s method of difference (Landman, 2003). On the one hand, the choice of this strategy is dictated by the need to observe the “behavior” of a particular set of explanatory variables within contexts similar enough to allow the exclusion of irrelevant country-specific characteristics. On the other hand, the work intends to study how parallel processes of change take place within each context as a way to highlight the underlying differences (Collier, 1993, p.108). Therefore, the emphasis of the research is not on conducting a systematic in-depth causal analysis across cases, but rather on using the juxtaposition of contexts to explain differing outcomes through a series of theoretically driven causal factors.

Two cases are identified as particularly relevant to the aims of this research design – domestic policy contexts in Bulgaria and Czech Republic. Two factors inform this selection. First, the research seeks to identify regulatory compliance at the national level in EU member states with the existence of a dominant advocacy coalition, seen as a major stumbling block to adaptation progress. The two selected cases incorporate specific contextual circumstances that make them particularly vulnerable to regulatory capture and clientelism, associated with incumbent monopolies in post-communist economies. Among those is the legacy of highly centralized industry and quasi-market reforms in the transition period, which allowed a small clique of company owners to thrive on existing market distortions (Hellman, 1998). Another factor is the lack of developed counterbalancing mechanisms in the form of institutional constraints (e.g. strong administrative organs, independent judiciaries etc.) to predatory private interests, not least because of few incentives for captors to push for liberal reforms (Sonin, 2002). Although some authors argue that EU accession conditionality has reduced considerably the levels of state capture in CEE states through accelerating democratic consolidation (Hollyer, 2010, Young, 2011), it is logical to assume that in countries identified as high capture economies (Hellman and

Schankerman, 2000) the proliferation of clientelist network remains highly susceptible to democratic reforms and the quality of restraining mechanisms.

Second, the case selection allows for keeping constant characteristics that do not fit the established causations between domestic power distribution and policy outcomes. One such factor underlines the nature of governance structures in the two cases (Lijphart, 1999). As both countries are unitary states with high concentration of policy competencies within national administrations, the potential of decentralized governments to generate veto points is kept under control. Also, a factor that is controlled for is the pro-EU orientation of national political elites. Here, Linos hypothesizes that in EU member states with pro-Europe governments rule transposition is more likely to be completed within the prescribed deadlines (Linos, 2007, p.552). However, as indicated by studies (Taggart and Szczerbiak, 2002) and expert opinions (Kalan, 2013) alike the positive case of regulatory compliance (Czech Republic) actually scores higher in terms of Eurosceptic party stances within the political establishment than the selected negative case (Bulgaria). Consequently, the level of government support to EU integration can be ruled out as an explanatory variable. A third factor that is kept constant is the role of political and economic power in adaptation to community rules. An underlying assumption in this regard is that more powerful states can afford to protract rule transposition as they are less susceptible to the reputational and material costs, associated with compliance failure (Börzel et al, 2010). However, measured in GDP per capita the state that pursued fully compliance (Czech Republic) is politically and economically more influential than the non-compliance case (Bulgaria). Finally, resource capacity for managing rule transposition is dismissed as in the policy domain at hand EU rules do not require changes in system-wide institutional or administrative arrangements.

2.7. Constraints of the research

A number of constraints are able to compromise the validity of the research. First, as an interpretative case study in the sense of Lijphart (1971) it inevitably brings in some of the deficiencies associated with small N efforts. By attempting to explain divergent outcomes through a limited set of potentially explanatory factors it might neglect important causes with significant influence over the outcomes. For example factors, related to domestic political cultures or administrative traditions are not specifically addressed in the current framework,

although some of their characteristic features are touched upon in the course of the analysis. The work strives to compensate for such trade-offs by selecting similar cases, allowing to limit the number of potential contrast to a narrow pool of explanations. Furthermore, the operationalization of the factors that have been selected is also approached through an interpretivist perspective. Therefore, some of the biases, associated with deterministic definitions of variable measures cannot be avoided completely. However, the research design tries to keep any utilized measurement scales maximally close to standardized uses in qualitative studies and official sources. A specific bias arising from the nature of the work as an entry in the ongoing Europeanization debate is related to the difficulty in establishing a clear positive association between European inputs and developments at the national level. The research will address this problem by introducing a temporal dimension to the analysis of domestic contexts as a way to determine whether such association can be inferred from policy progress and actor stances at critical occasions.

3. Country cases

The current work takes as a starting point domestic regulatory compliance with the standards, laid out in a particular supranational legislative act: Directive 2009/72/EC concerning common rules for the internal market in electricity (Official Journal of the European Union, 2009). More specifically, the 2009 Electricity Directive has required the vertical separation of undertakings in the electricity sector by stipulating three possible types of regulatory solutions to be implemented in national legislation by the end of 2011. Those include: a) ownership unbundling; b) independent system operator (ISO) and c) independent transmission operator (ITO), differing in the degree of vertical separation (from complete unbundling to a possibility to retain ownership of the owned electricity grids under increased outside supervision). The introduction of the first option entails complete dismantling of existing monopolies, while the third virtually leaves the latter intact in the presence of strong constraining mechanisms. Moreover, the efficient provision of third party access and protecting the rights of end customers in the event of unbundling is to be ensured by increasing the supervisory authority and controlling functions of the national regulatory agency, as well as providing adequate sources of information to consumers. While being subjected to uniform pressures to introduce one of the three stipulated solutions, Czech Republic opted for full ownership unbundling, which it finalized

within the prescribed deadline, while to date Bulgaria has not completed a relevant procedure in this regard, while the third option has been incorporated in national law.

3.1. BULGARIA

3.1.1. Background

In January 2013 the European Commission referred Bulgaria to the European Court of Justice for failure to fully transpose the requirements of the 2009 Directive concerning the common rules for the internal market in electricity (RAPID, 2013). Of the three core segments, comprising the content of the established regulatory regime – separation of transmission networks from generation and supply, ensuring effective regulatory supervision and protecting consumer interests – it was insufficient compliance with the first one that provided the formal occasion for opening of an infringement procedure. However, taken together those represent a complex interwoven set of “market-making” standards – unbundling is necessary to eliminate barriers to competition and new entry, regulatory oversight works as a safeguard against distortive practices, while non-discriminatory access to the distribution networks determines the downstream access of final customers (Directive 2009/72/EC). In this sense, the incorporation of such standards in the legal order and regulatory practice of EU member-states has a clearly defined purpose: to change the domestic “rules of the game” in the direction of curbing anti-competitive market behavior of incumbent players as a prerequisite for genuine reform of the electricity sector (Jamasb and Pollitt, 2005). This is consistent with the findings of Knill and Lehmkuhl (2001), as reported in the literature review that in those areas where EU governance functions through competition the purpose of rule transposition is to exclude certain market distorting options from domestic regulatory practices. Therefore, in the Bulgaria policy context the analysis strives to reveal whether and to what extent the factual failure to comply with European-level requirements can be attributed to undergoing developments in a direction running opposite to reform targets.

3.1.2. Is the Bulgarian electricity market liberalized: the state of reforms?

A first step towards answering the posed question is to identify the *level of liberalization* within the domestic electricity market in Bulgaria. If legislative changes are taken into account a brief examination of the harmonized legal content reveals no obvious discrepancies between

European-level demands and national arrangements in Bulgaria. In terms of strategic commitments a new policy concept was introduced in 2011 setting priorities for the development of the energy sector until 2020. What can be found in the document is much in line with EU energy policy provisions. Building an “independent, regulated and competitive energy market” is among the key included objectives, where implementation measures envisage ensuring non-discriminatory access to the existing transmission network, increasing the professional capacity and independence of the national regulatory authority, State Energy and Water Regulatory Commission /SEWRC/, disclosure of information on the available capacity of the grid and protection of consumer rights (Ministry of Economy, Trade and Tourism, 2011). Moreover, separation of the transmission operator from generation and supply is included in the mid-term priority window with a firm commitment to complete the procedure for unbundling before the deadline of December 2011.

Regulatory arrangements corresponding to the requirements of the electricity Directive were introduced a year later in the Bulgarian Energy Law. An “independent transmission operator” – the model preferred by the government – was introduced, together with an overhaul of the oversight responsibilities of SEWRC and a new chapter on protection of customers, providing a wide palette of contractual obligations to be followed by suppliers and supervised by the regulatory authority. However, by the time the necessary changes were introduced the Bulgarian government was already receiving clear indications by the European Commission about possible sanctions for non-compliance (Capital, 2012). Moreover, discussing the legislative amendments in Parliament yielded heavy criticisms over the pace of the reform by both members of the opposition and representatives of the energy industry. Officials and experts alike expressed their doubts over the insufficient political commitment over the practical implementation of the new rules, whose “en-block” transposition in national law they saw more as a way to appease EU demands, rather than as a concerted reform effort expected to fill the existing gap between legal provisions and practical realization (CEPET, 2012a,b). Subsequently, liberalization dropped completely from the government regulatory agenda in a situation of intensifying external and internal pressure (Capital, 2013), hinting at a sustained inability of the domestic institutional framework to identify adequate policy measures. The latter is largely confirmed by expert opinions, according to which rather than being the result of technical incapacity the delayed

reform process is more likely caused by a pro-longed lack of commitment on the part of decision-makers to put in practice the already legally incorporated EU rules (Interview CSD, 2013).

The ambition of decision-makers in the Bulgarian energy sector to create conditions for a competitive electricity market through a combination of a new energy strategy ((former) Ministry of Energy and Energy Resources, 2002) and a new energy law (National Assembly, 2003) parallels a similar sequence of developments in 2002-2003 (Alexandrova, 2003). Then, harmonization with the requirements of the 1996 Electricity Directive was in the focus of the policy efforts, associated with the pre-accession introduction of the *acquis* (Europe.bg, Chapter 14 “Energy”, 2002). The key words in this round of regulation were again largely coinciding with external requirements. Creating a functioning market model, provision of direct access to generators, phasing-out of price subsidies, balanced pricing, restructuring and setting up an independent market operator were in the spotlight of reform aspirations ((former) Ministry of Energy and Energy Resources, 2002). However, as in the above example almost no firm deadlines were committed to paper (or met). Market opening to retail customers was introduced at the last possible moment in 2007, where the prospect of EU membership played a significant role in the timing of enforcement measures, with initial considerable skepticism on the part of Bulgarian policy-makers (Capital, 2005).

A wholesale market structure was also devised but as of now apart from large energy consumers all other customers (e.g. SMEs and household consumers) do not have access to direct price negotiation with generators, being sold electricity at regulated prices from distribution companies. Suppliers also buy power from the National electricity company /NEC/, purchased from producers under quota obligations, again at regulated prices (EC, 2012a). Therefore, only around 30% of electricity prices are freely negotiated. The generation segment of the market is characterized by high market concentration, where the producers “bundled” together with NEC in a single state-owned company produce around 60% of the total electricity output in the country (Ibid). They have no incentive to leave the comfort of the high fixed prices provided by NEC in order to compete on the free market (Interview EMI, 2013). Finally, the prices to household customers are kept at a very low level that does not fully cover generation costs, indicating on-going cross-subsidizing practices (Nenova, 2008).

In a nutshell, the electricity sector in Bulgaria could be identified by a very high potential for competitive distortions, related to the degree of government intervention and the dominant market position of NEC, impeding the adoption of a market-based approach, as well as the ability of generators and suppliers to choose freely their contracting parties (EC, 2012a). These are all indicators, which, according to Joskow define electricity sectors where reform efforts have been implemented incompletely or inconsistently, veering away from the “textbook model” of “restructuring, regulatory reform and market design” (Joskow, 2008, p.15). Therefore, in the case of Bulgaria the transposition of the third EU energy package was expected to take effect in a policy environment, characterized by a *low level of liberalization* and a wide gap between formal legal provisions and actual implementation measures. Also, in this context much of the realized policy efforts have been brought by the need to accomplish the externally negotiated reform targets, set by the European Union.

3.1.3. Reform capacity

How to explain the choices made by policy-makers in the described context? At the macro level the question that needs to be addressed is to what extent the *existence of formal veto points* can be involved as an explanatory variable in assessing domestic policy responses. On the federal/unitary dimension, conceptualized by Lijphart (1987) Bulgaria is firmly residing within the majoritarian end of the spectrum, indicated by a unitary governance structure and a high level of centralization (Roberts, 2006). Therefore, the ability of local self-government to influence policy can be outright excluded from the explanandum. In terms of cabinet types in the period when the bulk of liberalization reforms were programmed to take place (2001-2013) decision-making in the energy sector was in the hands of two consecutive majority governments (a centrist single-party and centrist-left coalition) and a stable minority government (center-right), which coupled with the relative cabinet durability again approximates a majoritarian pattern within Lijpharts’s model.

In general the Bulgarian political system has become less consolidated in the second decade after the start of post-communist transition, reflecting the emergence of new socio-economic cleavage structures (Karasimeonov, 2010). However, this trend has not translated into a higher extent of government instability due to the specificities of the electoral system (a 4% electoral threshold and a closed-list proportional representation) (ibid). In this respect Roberts argues that “electoral

systems in Eastern Europe, despite their consensus design, seem to act in a majoritarian manner, with large parties receiving a considerable bonus in seat allocation” (Roberts, 2006, p.42). Thus, the ability of formal veto points to block policy decisions is arguably less pronounced.

As to *factual veto points*, related to the pattern of interest-intermediation and the opportunities of non-state actors to influence policy-making, on the surface Bulgaria is defined by a corporatist mode of public-private interaction, with established channels of influence (formalized tripartite bargaining mechanisms) and well-defined relationships between governmental officials, business and labour (State Gazette, 2001). In Lijphart’s model this would indicate a consolidated structure of interest group interaction corresponding to fewer veto points. However, several indicators tilt against potential re-alignments in the direction of pluralist arrangements. Labour unions have been marginalized (the largest union CITUB had a little more than 300 000 members in 2008) (EFILWC, 2009), but the domestic business community has undergone processes of consolidation (the two most influential business organizations merged in 2006 to form a single umbrella, CEIB). In addition, European accession has been a major driver of consensus by providing access to new venues (a newly established Economic and Social Council) and financing opportunities (Structural Funds) to both social partners and, more importantly, diffuse interests traditionally functioning outside formalized bargaining structures (e.g. environmentalists, consumers etc.). Nevertheless, the efficiency of formal input channels has been widely questioned (see Ost, 2000), which puts under suspicion the ability of interest groups to have a say over particular policy processes.

A factor that also needs to be considered in relation to veto positions is *to what extent the influence of informal practices is reflected in policy positions*. In this respect the Bulgarian policy context can be defined as particularly susceptible to the existence of indirect interaction and “contingent exchange” (Kitschelt, 2011b) between political agents and private interests. First, in the post-2000 period the political system has entered a “continuous and deepening legitimacy crisis”, defined by declining voter turnout and high electoral volatility (Karasimeonov, 2010, p.149). This has attenuated the existing social bases of individual political parties and has hindered the development of steady popular party identifications. Moreover, the latter were never particularly thick in the first place, due to the highly elitist nature of party formation in the post-communist period (Ibid). Within such an environment, as argued by Kopecký, it is only natural for parties to turn to the state for resources, which they cannot obtain through popular

mobilization (Kopecký, 2006). In combination with the very low level of transparency in party financing (2.66 out of 10, according to Transparency International-Bulgaria) (TI-Bulgaria, 2005) this has created considerable rent-seeking possibilities, as well as spreading partisanship within state structures. An additional issue is the above mentioned inefficiency of formalized mechanisms for interest aggregation and dialogue to create a transparent network of public-private relationships, forcing interests to lobby largely “outside” the system. Finally, the specific pattern of evolving government-business relations in the transition period, related among other things to the practice of creating specific business circles as subsidiary structures of particular parties (with resounding names, such as “Orion” /early BSP/, “Olimp” /UDF/, “Frontier”/BSP, NDSV, MRF/) (Iankova, 2009), hints at a high potential for established clientelist types of interaction. As a concluding remark, the question of whether veto points bear relevance to the analysis at hand cannot be answered in a unilateral way. At first sight, the veto power of formal and factual structures to block decisions appears insignificant due to the strongly majoritarian outlook of the political space. On the other hand, there is evidence that factual veto points may be effective in influencing the outcome of policy processes through informal channels.

3.1.4. Power distribution and capture potential in the Bulgarian policy context

Identifying potential veto points is useful in sketching a general outline of the institutional setting, constraining policy choices in the Bulgarian case. However, it is not particularly well situated as a tool to grasp the *distribution of power among the actors that populate the particular context of energy policy within the country*. Here, the analysis strives to find out whether both veto and pro-reform positions are concentrated within a particular advocacy coalition or are evenly spread across the policy actor landscape.

In this respect, at the core of policy debate in the Bulgarian energy domain is the market dominance of the Bulgarian Energy Holding /BEH/, a large, state-owned and vertically-integrated enterprise, incorporating generation, transmission and supply in both electricity and gas. The blueprint for consolidation of the Bulgarian power industry under a single holding company can be traced back to the privatization of NEC in 2000. Then, the largely reformist right-wing UDF government was firmly committed to pursuing a maximalist restructuring agenda based on the British model of complete vertical de-integration (Alexandrova, 2000). A radical turn in energy reform was strongly opposed by the industry elites, who favored a more conservative “gradualist”

approach of stage-by-stage restructuring (Ibid). The rationale was that vertical linkages between the newly created companies should be temporarily preserved within an integrated holding structure in order to ensure sufficient investment until regulated prices are phased-out (Ibid). Eventually, NEC was restructured, but the ambition to consolidate the (already privatized) companies lingered on to the next governments. In 2004 it loomed again when a state-level conflict over the partial privatization of power generators produced a modified consolidation rationale. This time the intention was to create an umbrella enterprise that would be responsible for restructuring the companies included in its structure in a more transparent way (Alexandrova, 2004). This was the core argument utilized by the socialist-led government coalition in its quest to finalize the creation of BEH in 2008 (Alexandrova, 2008). Only 2 years later the new centrist government announced its plans to dismantle the company (which it deemed “unnecessary” and “parasitic”) (Dnevnik, 2010) but the initial impetus was ultimately lost. In this context, it could be argued that policy developments at the domestic level in Bulgaria ran in a direction opposite to what was being negotiated at the supranational level at the time of the elaboration of the third energy package. Therefore, the fact that Bulgaria supported Germany and France in devising a third less demanding unbundling option (Nenova, 2008) (which it later introduced in national law) should not appear particularly surprising.

How to relate the entrenched position of BEH to the indicated gap between paper legislation and regulatory practice in the observed policy domain? The issue here is to what extent *state capture* can be considered as a critical nexus between the two. The first question to be addressed in this respect is *how the structure of the Bulgarian energy sector reflects upon the reform processes within it*. To start with, cramming together the bulk of power industry within a single state-owned entity inevitably entails a high risk of political influence over the functioning of the individual companies included in BEH (Interview EMI, 2013). On the one hand, the operation of the electricity grid is still within a subsidiary of NEC, which casts a shadow over its ability to provide non-discriminatory access to new market entrants. On the other hand, the efficiency of SEWRC as an oversight authority is compromised by government intervention in managerial matters (EC, 2012a) and doubts over its institutional and budget capacity to handle increasingly complex regulatory obligations (CEPET, 2012). In addition, the key role of SEWRC as a balancing mechanism in a tight, excessively regulated and non-transparent market increases the risk of strategic price manipulation in favor of the state-owned component of the market. For

instance, the SEWRC-approved revenues of NEC have steadily increased in the 2008-2010 period in contrast to those of the three privately-owned distribution system operators /DSOs/ (Capital, 2011a). Hence, within the observed policy context there could be identified a core network of established relations between the state, state-owned companies, and the regulatory authority (“iron triangle”), targeted towards maintaining the dominant position of the existing vertically-integrated structure. As such it is in a direct conflict with the EU liberalization agenda.

The structure of the Bulgarian electricity market is certainly a critical factor in measuring the potential for state capture in the studied policy environment. However, an important question that begs an explanation in this respect is *whether the structure of the market is devised in such a way in order to provide opportunities for extraction*. On the surface, electricity is a key sector in national economy, with significant financial resources at stake. In the Bulgarian case it is the most profitable state-owned utility, with BEH and its subsidiary energy producers providing a major source of revenue: in 2012 the companies included in the holding more than doubled their profits in comparison to the previous financial year (Antonov, 2012). Also, since 2009 80 to 100% of BEH’s revenue is included in the state budget in the form of dividends (Interview EMI, 2013). This is relevant as one of the major motives behind the creation of BEH has been to provide a financial backbone for large-scale energy infrastructure projects (such as the Belene nuclear plant and South stream gas pipeline) (Alexandrova, 2004). Therefore, it could be argued that the sector is perceived more as a source of income, where government intervention is intended to ensure the realization of particular goals, rather than through the necessity to develop a competitive market structure.

Furthermore, the Bulgarian electricity sector is also highly susceptible to *clientelist practices*. A major issue in this regard is the specificity and high technical complexity of the engineering and maintenance activities, ensuring the functioning of the transmission network and existing generation facilities. This has led to the formation of a closed community of energy experts, either directly employed within the industry itself or operating consultancy services with major involvement in repairs tenders (Tchalakov et al., 2010). As stated in a recent report on the major governance issues in the energy sector “contractors implementing public procurement contracts awarded by the biggest energy companies are considered to be some of the most profitable businesses in the country” (CSD, 2010). This is consistent with Kitschelt, who identifies preferential access to government contracts as a major type of clientelist behavior, particularly

common in economic sectors, characterized by high level of political intervention, state-owned enterprises and monopsonic market structures (Kitschelt, 2011a).

Another major arena of extraction identified within the Bulgarian electricity sector is the export of electricity (CSD, 2010). The concentration of clientelistic effort at the input (raw materials) and output (electricity production) end of the system dates back to the initial stages of the post-communist transition. According to Tchalakov et al the high risks, associated with breaching the technological standards involved in managing the system, as well as the specific nature of electricity as a non-storable commodity prevented emerging corporatist structures from entering the core of electricity production (Tchalakov et al., 2010, p.127-129). Instead, those so-called “intermediaries”, operating under the auspices of the ruling party (the former communist nomenclature) focused their attention on the generated output (Ibid). In this regard there are indications that this model has remained unchanged to the present. As reported in the above mentioned study currently the state-owned NEC (which holds a monopoly on purchasing electricity for exports) carries its export activities primarily through intermediaries, who are seen as better adapted to market conditions. However, according to the Centre for the Study of Democracy those are “the same companies that controlled both the input and the output of state enterprises” (CSD, 2010. p.36). In this respect instead of “improving efficiency through the involvement of the private sector” privatization is identified as a process, cementing the influence of intermediary companies on state institutions (Ibid). In such an environment the imposition of EU rules and the resulting push towards devising a transparent and well-defined market structure, with clear responsibilities and relationships between the state, regulatory authorities and market players is expected to “lighten up” the on-going processes in the electricity sector (Interview EMI, 2013).

To close the loop, a closer look at the rationale behind the creation of BEH may provide a clue to the element of intention in creating a non-transparent market structure. The main goals in this regard was to create a holding company that would at a later stage be responsible for selling the companies included in its structure, presumably at a better price (Alexandrova, 2004). Also, vertical integration was seen as a way to increase the competitiveness of the incorporated companies after the 2007 market opening, mitigate price increases for households and generate economies of scale (Ibid). A third goal is the improvement of investment potential through better control, supervision and increased accountability (Ibid). If the defined aims are considered

against the background of the EU liberalization objectives, namely effective restructuring, improving competitiveness and increasing transparency (EC, 2012a), two conclusions can be made. First, the two sets of goals match almost completely. Second, there is an obvious discrepancy in the method through which the desired changes are expected to take place – in the Bulgarian case it is through the creation of a vertically-integrated structure, while the EU rationale envisages the dismantling of the existing ones. According to expert opinions this reverse liberalization logic reflects a flawed understanding of competition, based on a firm intention to preserve the imbalances between state and privately-owned market segments (Ganev, 2008). Thus, liberalization in the “European” sense, taken to define restructuring into smaller companies without their actual privatization, is utilized to maintain the privileged position of a small clique of actors, sealed by strong government intervention in the absence of efficient democratic constraints (Tchalakov and Hristov, 2011).

3.1.5. Increasing salience of electricity market liberalization in Bulgaria

Finally, a critical factor that needs to be included in the explanandum is the level of *salience of electricity liberalization* as a policy issue appearing within the Bulgarian domestic discourse. To begin with, the existing debate on national transposition of EU regulatory requirements is conditioned by the closed and highly politicized nature of domestic discussions (Interview CSD, 2013). Thus, within the public space cost/benefit considerations are largely limited to the potential impacts on household prices. In this regard, the significant percentage of low-income households (Bulgaria had the lowest DGP per capita in the European Union in 2012) and the predominant use of electricity for heating have translated in high consumer susceptibility to price fluctuations and a marked public preference for cheap energy (Todorova, 2011). As a result, social pressures, induced by increasing electricity prices have targeted consumer discontent towards the privately-owned supply services (the three current suppliers are owned by ČEZ, EVN and Energo-Pro) (Report CSD, 2010) brought about by privatization and opening of the electricity market to international competition, which is associated with liberalization requirements. Also, nuclear power, produced at a lower cost by the existing national plant (Kozloduy), is favored by public opinion in contrast to the more expensive energy generated by renewable sources and foreign-owned coal plants (owned by AES and ContourGlobal), both of which are considered to burden electricity bills (Interview CSD, 2013). Consequently, parties

both within (the left-wing BSP) and outside (the radical right Attack) the political establishment have picked on calls for re-nationalization of suppliers (Petrova, 2013, Dimitrova, 2013), while labor unions have demanded reviews of existing long-term contracts with the “American” coal generators to account for sunk costs, and limiting the burdening “green” price supplements to a reasonable minimum (CITUB, 2013). Therefore, to the extent that liberalization appears within the Bulgarian public space it is linked with public perceptions oriented towards keeping the status quo and even reversing the direction of the liberalization process.

On the decision-making level the present analysis has found evidence for the existence of an entrenched pro-status quo consensus. During the negotiation of the third EU energy package Bulgaria was among the opponents of the liberalization approach proposed by the European Commission. Particularly unappealing was the model of ownership unbundling, which was perceived as unjustified in light of the involved financial burdens and managerial difficulties. Moreover, the “economic soundness” of the model was also questioned by the Bulgarian side (Report OSI, 2009, p.28). In response an alternative approach was put forward focusing on rigorous regulation and increased supervision (Ibid), indicative of the strong pro-interventionist position of the BSP-led government. In this regard, supporting a more radical pro-liberal stance would have compromised the undergoing consolidation developments in the Bulgarian energy sector, associated with the creation of BEH. To what extent the taken position has been dictated by an intention to preserve existing distributive practices can be inferred from a recent survey. The latter found a strong positive correlation of two particular modes of clientelistic effort (public procurement and regulative capture) in all three parties, forming the governing coalition at the time (BSP, NDSV and MRF) (Kitschelt, 2011a). The government stance has been questioned by the right-wing opposition (MRF and UDF), which initiated two parliamentary hearings in December 2007 and January and February 2008 (Lessenski, 2009, p.28). However, this has not resulted in visible turns in the pursued policy. The new center-right GERB government, which ascended in 2009, initially settled on a pro-reform course. At different points restructuring a la “EU requirements” (separation of the assets and managements of the transmission system operator /ESO/ from the owner of the grid NEC) (Nenova, 2009), dismantling (Katanska, 2010) and partial privatization of BEH (Dnevnik, 2010) were considered, but the project was eventually shelved.

On the policy and professional levels, however, there could be identified a wide pro-liberal coalition, outlining the involvement of a fragmented spectrum of actors. Here, the utilized rhetorical tactics and formulated demands largely coincide with European liberalization requirements, indicating a potentially high level of policy salience. In this regard the accumulation of pro-liberalization positions in the domestic context has proceeded along the line of defying the pro-interventionist character of government policy in the electricity sector. Thus, the efficiency and independence of the national regulator has become the focal point of the pro-reform dispute, which mirrors EC conclusions, concerning the high level of political influence over the regulatory functions of SEWRC (EC, 2012a). In this respect the domestic policy debate revolves around the deficiencies in the price controlling mechanisms of the regulator, where instead of preventing upstream participants from using their monopoly position these are rather used to shield certain favored producers at the expense of consumers (CSD, 2010, Alexandrova and Ionkova, 2013a,b). At the same time consumers are effectively cut off the debate by lack of access to adequate sources of information (Interview EMI, 2013). As argued by a representative of an electricity trading company “the logical conclusion of all of this is that the intention is not to create a transparent, well-defined, market-based and working model, but to maintain a level of disinformation and conspiracy, if you want, around electricity, which is not perceived as a good for mass consumption, but as something mysterious and mythic, in order to work through other side schemes” (Alexandrova and Ionkova, 2013a,b).

On the downstream distributors and suppliers have been at the helm of liberalization demands as a main target of both consumer pressures and pressures, stemming from excessive price regulation. In this regard low network tariffs and the low level of approved costs have consistently hindered their investment potential and the ability to maintain high service quality (Hinovski, 2010, Capital, 2011a, Alexandrova, 2013a). Large industrial consumers operating on the free market have also pushed a pro-liberal agenda as the high level of market power in generation has constrained their choice of contracting parties to a limited pool of state-owned producers (in practice only 3, all of them subsidiaries of BEH) (Interview EMI, 2013). Moreover, according to the Bulgarian Federation of Industrial Energy Consumers /BFIEC/ selling the bulk of produced output on the export markets has led to speculative price increases for industrial consumption through disbalanced quantity allocation, neglecting internal demand. This has generated an “artificial deficit”, raising suspicions about manipulative practices on the wholesale

market (BFIEC, 2012). An active pro-liberalization stance is also voiced by electricity traders (organized under the Association of Traders for Electricity in Bulgaria/ATEB/) who have battled the access fees, determined by the system operator ESO and the high transmission prices for export, paid to NEC /Nikolova, 2013/. According to traders the complete “re-engineering” of the energy structure in the direction of extending the free market to all consumers and/or abolishing the intermediary position of NEC (in line with EU requirements) is the ultimate remedy to decreasing demand and removing burdens on prices (Ibid).

3.2. CZECH REPUBLIC

3.2.1. Background

The liberalization of the Czech electricity market was fully accomplished in advance of the prioritized deadline for introduction of national regulatory arrangements in line with Directive 2009/72/EC. Thus, legal provisions stipulating the separation of the transmission network from generation activities on the basis of the “ownership unbundling” model – the approach preferred by the European Commission as a most effective tool for ensuring transparency and competition in the electricity market (EC) – were incorporated in the Czech Energy Act in August 2011 (Act 458/2000). In practice vertical disintegration was achieved much earlier when the shares of the transmission system operator (ČEPS) were transferred from the Ministry of Finance to the Ministry of Industry and Trade in August 2009, making the latter a 85% majority shareholder with the rest 15% owned by the Ministry of Labour and Social Affairs. Moreover, within the same pool of legal amendments, the scope of obligations of the national regulatory authority (Energetický regulační úřad /ERÚ/) was extended to reflect the Directive requirements in regard to oversight efficiency and autonomy to control the duties and responsibilities, imposed by the Energy Act. In this regard ERÚ assumed full inspection responsibilities from the State Energy Inspectorate, while the independence of the regulator was further guaranteed by transferring the right of appointment of its chairperson from the Government to the President of the Czech Republic. Furthermore, the existing regime of end-consumer protection was significantly enhanced through improving the conditions for customer withdrawal from contracts, switching suppliers and providing access to relevant information regarding variation in wholesale prices (art. 11a). ERÚ was also vested with exclusive authority to protect the interests of customers and resolve disputes over the execution of contracts, obligations of contractors and access to the

transmission network (art.17). Therefore, in the Czech policy setting the incorporation of EU liberalization requirements within national legislation and regulatory practice was achieved according to schedule and in some respects anticipated European-level demands. Considering the largely divergent outcomes of policy progress in Bulgaria a major aim of the current analysis is to examine the contextual factors that are able to account for the observed discrepancy.

3.2.2. State of the art in electricity liberalization reforms

A brief examination of the policy developments in the Czech Republic from a historical perspective provides an opportunity to identify the extent to which EU inputs were reflected in policy decisions at the different staged of the liberalization process. As a starting point, a legal framework for electricity market liberalization was introduced with the adoption of the said state Energy Act in 2000. The established domestic market structure followed closely the prescriptions of the first EU package (Directive 96/92/EC), including the provision of equal conditions for access of third parties to the transmission network, separate accounting of vertically integrated enterprises, publishing of accounts, as well as setting up an autonomous energy regulatory office as a safeguard against undue distortions of competition. Moreover, in contrast to the Bulgarian case the previously utilized single buyer model was swiftly suspended by settling on regulated third party access, which at the time represented the most advanced approach to ensuring wholesale competition, prescribed by the EU (Jamasp and Pollitt, 2005). At a later stage, increasing the independence of the transmission system operator was achieved through legally unbundling ČEPS from the generator ČEZ until January 2005, in compliance with Directive 2003/54/EC (Official Journal of the European Union, 2003).

In addition, an ambitious plan for gradual market opening in retail services was included in the law, and later confirmed in the State Energy Policy of 2004 (Ministry of Industry and Trade, 2004). The plan envisaged the step-by-step extension of the category of eligible customers to all non-household consumers by January 2005 and all consumers including residential households by January 2006, a year and a half before the stipulated deadline (EBRD, 2010). Correspondingly, in sharp contrast to developments in Bulgaria, where regulated prices still account for around 70% of the market, in the Czech Republic the regulated price component was successfully phased-out by the time liberalization was completed, indicting a steady decrease in the level of government intervention. Currently, end-user prices are not regulated, with ERÚ

controlling network and service charges, while the price of energy itself is not a subject of control (ERÚ, 2009). The result is a very high switching rate, where the number of consumers changing their retailer in the 2010-2012 period has more than quadrupled (EC, 2012b). Also, on the wholesale market both large industry consumers and SMEs can purchase energy through bilateral contracts with either a retailer or a generator at market prices, while also entering into a separate system contract with TSOs or DSOs for the controlled price component (CMS, 2007). Thus, the intermediary role of NEC as a buyer and seller of electricity at fixed prices in the Bulgarian case has been successfully avoided in the current context.

In short, the Czech case of electricity market liberalization shows all signs of timely and consistent reforms efforts in line and even sometimes preceding the regulatory requirements, imposed by the EU. Such a course of policy changes correspond to Joskow's "ideal" textbook performance, where proper restructuring and the introduction of effective controlling mechanisms have been carried out to guarantee a well-functioning competitive market (Joskow, 2008). Therefore, in the Czech policy context the level of liberalization can be identified as high.

3.2.3. Reform capacity

A further, macro-analytical dimension takes into account the relevance of veto players as an explanatory variable, conditioning the likeliness of reform in the Czech policy context. As in the Bulgarian case in terms of formal veto points the Czech Republic is firmly situated in the majoritarian end of Lijphart's democracy patterns scale, defined by a highly centralized unitary system of governance and administrative decentralization. A pronounced difference in the Czech context is related to the existence of a bicameral decision-making structure as a potential veto-generating factor. Nevertheless, the relevance of this factor is largely marginalized by the medium strength of Czech bicameralism, where the upper house (Senát) does not have the power to veto legislation (Roberts, 2006). Also, a veto position can be overridden by an absolute majority of the Chamber of Deputies (Ibid). Therefore, bicameralism can be safely excluded from the explanandum at the federal/unitary level.

A slightly more pluralistic outlook comes to the fore when the relevance of cabinet types and political system characteristics is applied to the Czech case. With respect to Lijphart's model the

country's political landscape appears to incorporate markedly more consensus features in comparison to the Bulgarian case. Thus, unstable governments controlling slim parliamentary majorities have been the norm in the years when electricity sector reform has been intensified by major policy developments at the EU level (2000-2012) (The Economist, 2011b). In this regard, the Czech Republic has seen a number of major cabinet reshuffles in the early 2000s, while the mandate of the right-of-center coalition formed in 2007 has been curtailed by a no-confidence vote two years later, to be succeeded by a caretaker cabinet. The first signs of stabilization came only after the 2010 general elections, when a stable majority coalition government was formed on a mandate of the right-wing ODS (Álvarez-Rivera, ?). However, the high veto potential, related to the prevalence of short-lived minority or unstable majority cabinets, is undermined by the observed increasing consolidation and bipolarization of the political spectrum after 2000 (Hloušek, 2010). In this respect, the dynamics of party and electoral competition is largely determined by the right-left confrontation between ODS and ČSSD (Ibid). The relevance of proportional representation as a consensus trait is also restricted by a series of "build-in mechanisms designed to curtail excess political fragmentation" (5% electoral threshold for individual parties, 7% and 10% thresholds for electoral coalitions) (Klíma, 1998, p. 504). Therefore, the minimal ability of new interests to enter the political domain and influence decision-making brings the Czech policy context closer to the majoritarian end of Lijphart's continuum.

In regard to factual veto points the pattern of interest intermediation in the Czech Republic exhibits more pronounced majoritarian characteristics than its Bulgarian equivalent, defined by stronger corporatist arrangements and a consolidated mode of group formation (Roberts, 2006). The influence of the established national-level collective bargaining mechanism (RHSD) was initially limited by its role as a purely consultative organ in the 90s (Myant et al., 2000), but it gradually gained new ground, particularly during the country's preparation for EU accession (Hála et al., 2002). Labour unions and employers have also suffered less from decreasing membership (In 2008 the most influential confederation ČMKOS had more than 500 000 members) (EFILWC, 2009). However, as observed by RHSD "has never become an institution to which draft legislation has to be formally submitted for observations" (Hála et al., 2002, p.9), hinting at its insufficient relevance as a source of veto pressure.

The last factor that needs to be taken into account in relation to veto points is the influence of *informal practices* on policy decision. At the macro-level during the transition period the Czech Republic was characterized by Hellman et al as a low capture state, less susceptible to clientelist effort in terms of party patronage, non-transparent party finance and legislative capture (Hellman et al., 2000, p.21-23). O'Dwyer explains the lower level of party patronage in the country by hypothesizing a link between post-communist state building and the logic of party competition, where consolidated, usually bipolar party systems, defined by less fractionalization and electoral volatility (steadily decreasing in the Czech Republic in the 1990-2006 period) (Dwyer and Kovalčík, 2007), as well as the ability of opposition parties to constrain the government, lead to more efficient public administrations (O'Dwyer, 2006). As in the 90s the Czech Republic developed a "responsible" party competition pattern it was able to move quicker from early patrimonial to a rationalist Weberian type of bureaucracy, less responsive to clientelism (Ibid). However, there are indications that in the post-2000 period the effect of those early achievements has been reversed. As a result of increasing institutionalization, elitist party formation and diminishing membership base, Czech political parties have come to represent "narrow professional teams with organizational characteristics approaching those of a cartel, and where mass membership is deemphasized" (Hloušek and Šedo, 2010, p.13). This has led to a situation, where "parties often recycle the same personalities and reward loyalty rather than expertise" (Druker, 2012, p.187). Coupled with the persistence of informal contacts across the political establishment and the high level of exposure of politicians to informal networks (in fact identified to be higher than in the Bulgarian case) (Grødeland, 2007, p.235) such a trend indicates a high veto potential of clientelistic practices. However, in contrast to the Bulgarian policy environment the Czech context is characterized by a higher degree of democratic consolidation, defined by higher governance efficiency (2.75 in Czech Republic, compared to 3.50 in the Bulgarian case) (Druker, 2012, Ganev et al., 2012) and judicial independence (2, compared to 3.25 for Bulgaria) (Ibid). Therefore, it could be argued that in the Czech case the veto power of clientelist behavior is restrained by more efficient democratic constraints.

3.2.4. Power distribution and capture potential in the Czech electricity sector

The main question to be addressed in regard to domestic power distribution is whether the policy equilibrium in the Czech context is tipped in the direction of a dominant interest formation

posing barriers to competitive interaction. In this regard, a wide domestic debate revolves around the dominant market position of ČEZ, a powerful state-owned enterprise, accounting for around 70% of the total production of electricity in the country (EBRD, 2010). Moreover, ČEZ also holds a major market share in distribution and retail, where it controls the activities of 5 out of 7 regional distribution operators (“REAS”) through a vertically unbundled company (CMS, 2007). Thus, the level of market concentration in both generation and supply is identified as particularly high (the Herfindahl-Hirschman Index /HHI/ ranks the country second only to France in terms of market power in generation) (Ondřich, 2010). It follows that although the separation of the transmission network from the competitive segments of the market (ownership unbundling) has been completed successfully in 2009 this process has not been accompanied by relevant measures at horizontal restructuring as a prerequisite for wholesale competition (Jamassb and Pollitt, 2005). The result is low competition in purchase prices as suppliers ensure their deliveries almost exclusively through the auctions, organized by ČEZ, which thus represent the main factor determining the wholesale price (CMS, 2007). Also, according to market experts the vertical integration of generation and supply activities has allowed the supply services incorporated in the ČEZ group to take advantage of the synergic effects of joint procurement from the dominant producer within the establishment to the detriment of other suppliers on the market (Kacvinský and Kadeřábková, 2008, p.3). Moreover, as the non-regulated price components account for approximately 66% of the price for industrial consumers (EC, 2012b) the latter have consistently attributed yearly increases to the monopolistic business practices of generators and suppliers, as energy and supply costs bear the major weight in end prices on the liberalized market (Morávek, 2008, Thompson, 2011). Finally, the market framework of the Czech power sector shows all signs of high potential for margin squeeze, including a dominant position of a vertically integrated undertaking in the upstream market, ineffective downstream competition and lack of substitutes for the input of the dominant company in retail (OECD, 2010, Ondřich and Bebiak, 2011). Therefore, in contrast to the Bulgarian context, where competitive distortions are associated with barriers to entry and excessive regulation, a somewhat opposite tendency could be observed in the Czech case – obstacles to efficient competition stem from high market concentration in generation, the limited number of market players, as well as the horizontal and vertical dominance of ČEZ.

A critical indicator of power concentration utilized by the current analysis is the potential for *state capture* in the domestic policy environment as a factor determining the direction of policy developments. Thus, the work strives to identify a relation between the dominant position of ČEZ and liberalization dynamics in the Czech electricity market. Clues leading to a tentative explanation come to the fore if the evolution of ČEZ is tracked in a temporal perspective. In this regard what becomes immediately obvious is that ČEZ followed a path of consolidation not dissimilar to processes in the Bulgarian power industry.

At first ČEZ was partially restructured in the 90s, where the transmission network and the eight regional distribution companies owned by the former national energy company were transformed into joint stock companies (Kaderják, 2007). Also, in the mid-90s minority stakes in the DSOs were transferred to foreign investors and municipalities (Ibid), indicating a course towards a more competitive outlook in the energy sector. However, starting from the early 2000s a new pattern started to emerge. The change was not straightforward – privatization plans in 2000 included two opposing concepts put forward by the Ministry of Industry and Trade and Ministry of Finance (Zemplerová, 2000, p.7). The first proposed an integrated approach, envisaging the vertical integration of ČEZ with its restructured components into a single monopoly, which would at a later stage be sold as a single enterprise. The other, “fragmented” approach included the step-by-step privatization of the separate production, distribution and transmission. Eventually the ODS-led government settled on the former, proposing to sell all but 6% of its 67% interest in ČEZ to a single purchaser (Parker, 2002, p.31). The new owner would hold a vertically integrated power industry, controlling most generation and majority shares in 6 out of 8 regional distribution companies (Ibid). According to the plan the transmission network would be brought out of the vertical structure (ownership unbundling), a concept that would be incorporated in EU directives approximately 8 years later. Subsequently, privatization failed (bidders were turned off by the high price and the requirement to purchase high early amounts of brown coal) (EC, ?) but the plan was carried out – the state remained at the helm of a company holding a monopoly in generation, while until 2005 the government bought off its majority shares in 5 of the DSOs, which, however, were unbundled according to EU rules. Therefore, while the community-led process of market liberalization was on the move the Czech energy sector was undergoing processes of consolidation, which in contrast to the Bulgarian case did not interfere with European-level regulatory requirements.

A look at the core rational behind the consolidation of ČEZ may provide a further clue to its impact on liberalization progress in the Czech policy context. In this regard, it is argued that since the beginning of the company's reorganization it was geared for expansion on the external market (Švehla et al., 2007). Thus, ČEZ underwent an extensive modernization program in the early 2000s (Ibid), while it also acquired substantial coal capacities (the Severočeské mining company in which as of 2006 it owns 100% of the shares) (ČEZ, ?1) and commissioned new nuclear power capacities at Temelín (the first two reactors became operational in 2001 and 2003) (EC, ?). Consequently, the ČEZ group quickly became the second biggest power exporter in Europe (Ibid) and the largest per capita net exporter of electricity in the world (EBRD, 2010). Also, the company opened new businesses and made a serious of acquisitions of assets both in and outside the EU (the share of electricity sales to end customers abroad accounted for 31% of the total amount of sales in 2008) (Novaková, 2009, ČEZ, ?2). Combined with its monopoly position in generation and supply at home this means a massive profit generation, estimated at 52 billion crowns in 2009: more than the combined net profit of Czech Republic's largest banks of that year (The Economist, 2010a). Considering the ownership structure of ČEZ, where the government holds around 67% of the company's shares, such profit rates indicate an excessively large amount of financial resources at stake.

In this regard, studies report a high level of symbiosis between the state and its economic activity, defined by an inextricable link between government spending and the profits of ČEZ, frequent appointments of company managers at political posts and vice versa, as well as unclear lobbying practices informing major policy decisions and national legislation in the energy sector, (Švehla et al., 2007, Bouda, 2008, Liška, 2008, The Economist, 2010a). Critics have questioned the expansive policy of the state-owned company, dictated by political interests and made possible through the low costs of coal generators, higher consumer prices at home and massive exports at the expense of domestic efficiency and modernization measures (Švehla et al., 2007). Also, as due to its market share ČEZ has become impossible to overlook, the concentration of the political establishment on the profit maximization of a single company is viewed as an impediment to government capacity to create a level-playing field to the benefit of all market players in the sector (NH, 2009). As stated by a former Minister "ČEZ is a government agency more powerful than the government" (Švehla et al., 2007). Therefore, the Czech policy context can be characterized by a particularly high capture potential, with influence flowing between policy

actors (the state and a major market player) in a close-knit advocacy coalition. However, in contrast to the Bulgarian case, where capture is associated with government intervention in domestic pricing regulation as a shield to state-owned companies, the source of capture in the Czech context can be identified with maintaining the competitive position of the state-owned monopoly on the external market.

It could be argued that in such an environment EU liberalization requirements represent an opportunity for benefit maximization through imposing market opening, where a strong company is able to expand its activity through acquiring assets in the newly liberalized markets. Moreover, the attached costs of liberalization - strengthening the supervisory capacity of the national regulator ERÚ and the unbundling of the transmission system operator ČEPS – could not be identified as bearing a major weight in domestic policy responses to EU inputs. The efficiency and independence of ERÚ have been significantly improved (although allegations of political and business influences have not ceased) (Léko, 2011), but of course the basic function of the regulator is to control the non-competitive segment of the market and not to interfere in its liberalized part (where ČEZ operates). Ensuring competitiveness in the latter, thus, is solely in the hands of the Úřad pro ochranu hospodářské soutěže (ÚOHS), the Office for Protection of Competition, which has launched several probes related to ČEZ acquisition deals (Johnstone, 2011). In addition, although ČEPS has been fully unbundled through transferring its shares from the Ministry of Finance (responsible for the management of ČEZ) to two other Ministries its state ownership has remained intact. As observed by a domestic policy expert “The fact the majority owner of both companies is the state obviously does not bother the Commission” (Adámková, ?). Here, as in the Bulgarian case, liberalization along the EU-endorsed formula “restructuring without privatization” has had particularly strong reverberations.

3.2.5. Low domestic salience of electricity market liberalization in the Czech Republic

The processes of market opening and vertical unbundling were largely government led endeavors, following closely the prescriptions laid out in the EU directives in the absence of wider public debate (Interview ČEZ, 2013). This is consistent with critical observations indicating a closed nature of public-private relations in the country where a “narrow representative model of democracy has prevailed, which better suits the technocratically oriented

political elite” (Laboutková, 2009, p.22). In practice, in contrast to the Bulgarian case, issues related to the impacts of the liberalization process started to enter the public domain after the process itself had been completed (Interview ČEZ, 2013). Thus, domestic preferences mediating the outcomes of regulatory compliance have to be analyzed in regard to actor positions at the decision-making and expert levels.

In domestic policy discourse liberalization is consistently linked with discussions on the degree of government intervention in economic activity, which in the context of the Czech energy sector translates into considerations over the privatization of ČEZ. In this respect there have been identified three principal coalitions within the political establishment, loosely corresponding to a somewhat moderate pro-liberal stance, a prominent negative position and a pro-status quo standpoint (Černoch et al., 2010). The first includes the right-wing ODS and the Greens /SZ/, with the former favoring partial privatization, while the latter has expressed a more pronounced position towards complete dismantling of ČEZ (Ibid). The second formation, consisting of the left-wing ČSSD, the rightist TOP9 and the hard-core communist party KSČM is generally opposing any efforts to undermine state control over the energy giant, with the latter also accentuating on strengthening government accountability in relation to its performance as a owner of ČEZ (Ibid). The middle ground has been occupied by the conservative KDU-ČSL (Ibid). However, a clear relation between party positioning on privatization and liberalization attitudes could hardly be established. For instance, ODS later revoked its intentions due to concerns over energy security and observed “turbulences” in the energy commodity market (HN, 2010). Hence, such causation is not particularly relevant as a tool for tracking the evolution of policy developments in the Czech case.

A definitive push towards regulatory compliance with EU liberalization demands rather came from a source unrelated to domestic preference formation. A brief overview of Czech involvement in the supranational negotiations, leading to the adoption of the third energy package can provide a possible explanation of the positive outcome of domestic adaptation. Here, the debate again revolved around the position of ČEZ as a state monopoly and the potential impacts of further unbundling on the outlook of the company. The position of ČEZ over ownership unbundling – the option proposed by the European Commission – was expectedly skeptical. The Czech national champion made clear its conviction that the separation of transmission and distribution could be achieved without the ownership unbundling of assets (EurActive.cz, 2006).

Moreover, ČEZ claimed that the observed lack of satisfaction among end customers with the results of the liberalization process so far is not due to unsuccessful unbundling, as indicated by the Commission in its green paper (EC, 2006), but should be rather attributed to infrastructure and energy security issues (EurActive.cz, 2006). Thus, the enterprise was more inclined to adopt the second best option /ISO/, while ownership unbundling was viewed as leading to “isolated network transmission systems” (Ibid). Accordingly, this was the position initially advanced by the Czech government. However, eventually it was considered “too radical” and full ownership unbundling was endorsed as the most relevant approach, applicable to the Czech context (Řiháčková, 2009). According to policy observers the explanation of this change of course lies in the Czech role as a balancing factor in the final stage of negotiations over the third package, which coincided with the Czech Presidency of the European Union. The expert team of the Presidency engaged in extensive dialogue discussions with the European Parliament and Commission, whose goal was to achieve a viable compromise in order to finalize the adoption of the package in 2009 (Král et al., 2009, p.49). Consequently, as observed by domestic energy experts “the Czech Republic had also objections against ownership unbundling but the need to moderate negotiations during the presidency prevented Czechs from pushing through their interest too hard” (Mišík, 2010, p.15). Therefore, it could be argued that in the Czech case EU inputs worked not so much through altering the domestic opportunity structures but rather through framing the issue in a wider context.

Conclusions and discussion

The current diploma project has set out to study the impacts of transferring EU regulatory standards within the national legislation and implementation practice of new member states of the European Union. In this regard a core assumption informing the rationale behind the work is that the outcomes of rule transposition in policy settings, characterized by on-going processes of transformation may lead to results that vie or transfigure the intent incorporated in the initial regulatory design. At the same time the presence in domestic policy contexts of historically-embedded specificities, such as high levels of state capture, clientelist practices and non-transparent administrative procedures can mediate EU inputs in such a way as to ameliorate the existing gaps, rather than improve regulatory performance.

In order to determine the relevance of this rationale the work has aspired to compare the dynamics of adjustment to EU regulatory rules in two new member states (Bulgaria and Czech Republic) in a specific area of EU governance: electricity market liberalization. The work builds on the observed discrepancy between outcomes of regulatory compliance in the two target policy contexts (full compliance in Czech Republic as opposed to lack of compliance in Bulgaria) and proceeds to disentangle the reasons behind the divergent outcomes. The aim of carrying out the envisaged comparative analysis has been to use regulatory compliance as a test bed in order to identify potential dissimilarities able to account for processes of selective adjustment to external rules. In this respect the work steps on a hypothesized causal relation between the existing patterns of power distribution within domestic actor constellations and the outcomes of regulatory compliance with EU liberalization standards.

In order to substantiate a sufficiently comprehensive explanatory approach, applicable to the fulfillment of the set task, the work has drawn from a wide theoretical background. Thus, the current research framework follows the logic of the two key approaches found in Europeanization literature to study processes flowing in both top-down (the existence for pressures and incentives for compliance) and bottom-up directions (domestic factors underlying policy choices in the studied policy contexts). The domestic variables themselves are mostly drawn from policy compliance theory. Four variables have been identified as particularly relevant to the analysis at hand: the level of electricity market liberalization, the number and type of existing veto points,

the pattern of power distribution across existing actor landscapes and the level of policy salience within domestic policy discourse. Also, in order to capture the dynamics of policy development it has taken insights from theoretical conceptions on advocacy coalitions and policy equilibriums. In this regard the work has devised a causation relation, according to which the more the domestic pattern of resource distribution is tipped towards a dominant interest group (measured by the level of state capture within the particular context) the more unlikely is that policy change will occur according to time schedule or in accordance with prescribed outcomes. Consequently, the more consolidated the domestic actor constellation the more likely that EU inputs are perceived as a threat to existing practices, leading to pro-longed entrenchment.

The results of the conducted research are presented in the table below:

		Bulgaria	Czech Republic
Level of liberalization		Low	High
Reform capacity	Number of veto points	Low	Low
	Mode of actor interaction	Consolidated	Consolidated
	Pattern of power distribution	Dominant advocacy coalition	Dominant advocacy coalition
	Level of state capture	High	High
	Democratic constraints	Low to medium	High
Overall			
Liberalization salience	Existence in public discourse	+	-
	Identification of advocacy coalitions	+	-
	Agenda	-	+
Overall		Constraint	Opportunity
Policy outcome		No compliance	Compliance

As shown the two cases differ significantly in the level of implemented liberalization reforms. Bulgaria scores low on each of the three indicators used to measure the degree of electricity market liberalization – market opening, independence of the national regulatory authority and unbundling of vertically integrated structures. Market opening in retail was completed within the deadline, prescribed by European Commission (December 2007). However, as regulated prices have not been phased out as expected (fixed prices account for about 70% of the market) this has created opportunities for strong political intervention in the activity of the national regulatory authority SEWRC. Separation of the transmission system from generation and supply has not been completed and a government decision in this regard is still forthcoming. In the Czech case establishing retail competition was completed a year and a half before the term stipulated in the Directive (January 2006), while prices for end-consumers have been liberalized. In addition, full ownership unbundling had been carried out by September 2009, again before the prescribed deadline. The independence and supervisory efficiency of the national regulator ERÚ have also been significantly strengthened. Therefore, while in the Bulgarian case liberalization has lagged behind significantly, the Czech context shows all signs of full compliance with liberalization standards.

Within the reform capacity dimension the two cases converge in regard to the limited relevance of formal and factual veto points as an explanatory variable. Both policy contexts are characterized by a highly centralized mode of governance, with weak potential of the established mechanisms for public-private interaction to generate veto positions. The Czech case exhibits a lower level of cabinet durability, which can be considered as a marker of a rougher balance of power. However, the significance of this specific feature is diminished by the stable bipolar pattern of party competition, which coupled with tougher electoral constraints, limits the possibilities for fragmentation of the political space. In any case in both contexts the ability of informal practices to influence the policy domain is identified as significant due to the specificities of the existing party systems (party elitism and cartelization, undercut by narrow membership bases) and in the Bulgarian case: the peculiar evolution of business-government relationships in the transition period.

Visible differences start to emerge only after the patterns of power distribution within the energy sectors of the two countries are considered. On the surface both cases are identified by a highly

disproportional balance of power, skewed toward a powerful dominant actor coalition – the Bulgarian Energy Holding in the Bulgarian case and ČEZ in the Czech context. Both are state-owned former monopolies and both operate vertically integrated enterprises. Also, the two companies have emerged out of a process of re-consolidation of the previously restructured national power industries. The rationales behind the two consolidation agendas also coincided – in both cases the major goal was to create a single entity which at a later stage would be responsible for selling the separate components included in its structure. Subsequently, the envisaged privatization dropped from the agenda in both countries.

The two consolidation processes, however, differ in nature and degree. The Czech case indicates a higher level of consolidation, which nevertheless has proceeded along the lines of EU liberalization requirements: assimilation of most generation, distribution and supply, but excluding the transmission grid. Conversely, in the Bulgarian context consolidation was achieved through incorporating all segments of the market (in conflict to EU demands on unbundling), which, on the other hand, are individually more fragmented into separate entities.

In both cases there are indications of a very high level of state capture, mediated by the degree of government intervention in the activity of the state-owned company, clientelist practices and existing competitive distortions. However, there are considerable differences in the nature and forms of extraction modes. In the Bulgarian case the high technical complexity of maintenance activities has resulted in the formation of a narrow group of connected expert companies, consulting or implementing most public tenders, as well as the concentration of clientelist effort on the input and output ends of the system, where the so-called “intermediaries” have been able to involve in exports. Therefore, in this case capture is not so much concentrated on the profits of the vertically integrated structure per se but rather on maintaining high barriers to entry in favor of individual actors operating across the vertical chain. In the Czech context barriers to competition stem not from unsuccessful vertical unbundling but from the high level of concentration in generation and supply in a liberalized market. Consequently, ČEZ has been able to capitalize on its strong dominant position at home to expand internationally and become a major exporter of electricity, accumulating significant financial resources to be managed by its state-appointed and controlled supervisory body. In practice this has resulted in a symbiosis of

the state and its economic activity at a scale unmatched by equivalent events in the Bulgarian case.

The indicated levels of salience to a large extent reflect the findings of the work so far. Thus, in the Bulgarian case public salience of electricity market liberalization is identified as low, determined by the closed nature of the policy process, where the largely pro-status quo political establishment has prevented substantial reform efforts. At the same time the Bulgarian policy context has seen the emergence of a growing albeit fragmented pro-liberal coalition (suppliers, large and small industrial consumers, SMEs, policy experts), which has advanced EU rules as a remedy to continuing government intervention in the electricity sector, linked with the dominant position of NEC and the inefficient control of SEWRC in a heavily regulated market. Yet, so far the counterbalancing potential of intensifying mobilization has not produced a definitive agenda towards the completion of market liberalization.

In the Czech case the opposite situation can be observed: a liberalization agenda has been carried out with policy salience scoring even lower. In this context the liberalization processes has been perceived as a predominantly technical affair, where a narrow understanding of public-private interaction has prevented strong outside input. In fact, as revealed, issues related to the liberalization process started to penetrate the public domain after the process itself has been finalized. However, this has to do with the distortive practices of ČEZ in the liberalized part of the market that is uncovered by EU rules. At the same time, in the Czech context a factor that was originally not included in the current explanandum is reported to have had a major importance in the observed shift in policy. It relates to the obligations of the Czech Presidency as a key mediator during the negotiation and finalization of the third EU energy package. The Czech position initially reflected the opposition of ČEZ against ownership unbundling but later softened considerably as a result of the need to reach the compromise, pushed by the European Commission and Parliament. Thus, supranational involvement and wider framing of the issue tipped the scale towards a more pro-liberal stance that at a later stage determined the pace of regulatory compliance in the country.

In light of the established findings conclusions can be made in three key directions. First, in both cases EU inputs did not work through empowering an existing pro-reform coalition at the domestic level. In the Czech case no pro-liberalization interest group has been identified as a

factor in policy developments. In the Bulgarian case such a coalition has started to take shape but thus far it has been unable to trigger a process of equilibration that could lead to re-balancing the existing pattern of resource distribution. Although liberalization is increasingly salient in the domestic policy discourse and actors have formulated consistently more pro-liberal preferences this has not resulted in policy change.

A genuine reform effort has been prevented by the existing policy monopoly, underpinned by powerful path dependencies, state capture and pronounced pro-status quo sentiments. Driven by strong self-preservation instincts it has protracted the establishment of a functioning competitive model, using liberalization as a shield to non-transparent practices. In this environment it is only natural that EU inputs have been perceived as a constraint, which corresponds to the identified causation pattern. However, as maintaining such an entrenched position eventually becomes unsustainable a major policy shift is expected in the near future. In fact, evidence confirming this trend is already present – in February 2013 a massive public protest over electricity prices toppled the Bulgarian government, revealing a practical collapse of the country's energy sector which put liberalization in the eye of reform debates.

Second, in both studied contexts the final say in policy decision regarding electricity market liberalization has been reserved for the dominant actor coalitions. This, however, does not mean that EU inputs have not altered domestic opportunity structures. As argued in the Bulgarian case EU liberalization demands have been largely embraced by actors outside the inert policy subsystem, which perceive external rules as an instrument to unplug the liberalization process in order to attract new investment, minimize their expenses and accrue profit. Vertical unbundling and independent regulatory supervision have been seen as a challenge by an advocacy coalition bent on keeping the existing competitive distortions and that position ultimately prevailed.

The Czech case, however, illustrates a different pattern. While it can be characterized by an equivalent and arguably higher level of state capture electricity liberalization was accomplished on time. In a similar vein the Czech context indicates consistent restrictions on competition, albeit stemming from a different source. Although the dominant market player ČEZ consolidated the energy market it did so by permeating its liberalized segments, taking advantage of the lack of external pressures regarding privatization and market power. At the same time liberalization

provided access to external markets, while the envisaged vertical de-integration did not threaten its dominant position at home.

In the Bulgarian case the existing policy monopoly has striven to block reform efforts in order to benefit from distortions in the heavily regulated internal market. Conversely, in the Czech context the equally entrenched but outwardly-looking monopoly used liberalization as a tool for market expansion. In this environment EU inputs were perceived as an opportunity not by an existing pro-liberal coalition but by the dominant coalition itself. The latter found more benefit in accommodating to external rules, rather than in hindering the reform. Liberalization meant modernization, investment in infrastructure and ultimate profit maximization, while ownership unbundling was a small price to pay. This confirms the posed hypothesis that in new member states, characterized by transition sediments, selective domestic adaptation to EU regulatory requirements can exacerbate existing implementation gaps.

Third, state capture is a significant factor determining the existing balances of power in policy areas, where EU governance operates through competitive selection. The work has found enough evidence to support the formulated hypothesis in both country cases, although according to patterns slightly diverging from the causal relationships identified in the research design. Developments in the Bulgarian context conform to the Europeanization mechanism, defined as changing opportunity structures. As EU inputs have challenged the existing institutional equilibrium they have created a framework around which both new and established actors have coalesced in order to counter the existing policy monopoly, attracted by the emerging opportunities. Nevertheless, the latter has adamantly resisted liberalization reforms. In the Czech case the existing policy subsystem embraced the new opportunities, while few outside actors have altered their strategic position in the policy domain. Hence, while domestic adaptation to EU regulatory provisions matched the preferences of different actors in the two contexts, the outcomes of regulatory compliance reflected the standpoint of the domestic actor coalition, where the most capture potential is concentrated. This suggests that Europeanization studies focusing on utility regulation should consider the relevance of state capture as a factor having particular weight in policy reform.

As a final remark, the work has revealed a positive correlation between involvement in the supranational policy making process and policy shifts in the Czech policy context. This may be

taken as a proof that apart from downloading policy content in a top-down dimension, the increasing role of new member states in policy formulation and negotiation at the EU level alters the policy frame in which policy choices are made or implemented. A further line of research should concentrate more effort on studying this dynamic. Also, the work can benefit considerably from extending the devised research framework to new policy contexts in Central and Eastern Europe. In this regard further analysis can contribute new insights to the role of domestic actor configurations and institutional settings in regulatory compliance or falsify the results of the current study.

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